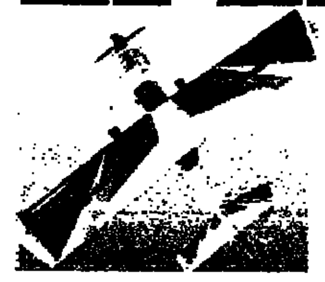
FINANCIAL TIMES

Poland
Small businesses weather the storm
Page 3

Economics
Happiness back on the agenda
Samuel Brittan, Page 10



Manufacturing
Toy maker joins the space race
Page 16

Reporting Britain
Facelift for inner cities
Survey, separate section

World Business Newspaper http://www.FT.com THURSDAY DECEMBER 18 1997

WORLD NEWS

EU vets could call for ban on US meat and poultry imports

European Union veterinary inspectors warn they will recommend a ban on imports of US fresh meat and poultry over methods for detecting "contaminants" in food from animals. The threat will raise the temperature in a growing food safety dispute. Page 12

German monetary conditions
The Bundesbank reported an improvement in German monetary conditions in recent months, suggesting it is in no hurry to raise short-term interest rates after increasing them in October. Page 2

Rising from the flood
A Polish shop has opened for the first time since the worst floods for a century destroyed hundreds of small businesses. Such determination has made the small business sector the backbone of Poland's market reforms. Page 3

'Ill-prepared for Emu'
Only 15 per cent of UK engineering companies have made plans for the introduction of European monetary union within a year, according to a survey. Page 7

Ireland's headache
Ireland, with a tragic history of emigration, is struggling to redefine its attitudes to foreigners as immigrants from eastern Europe seek work in an increasingly prosperous country. Page 2

Economies end year on a high
The economies of Latin America and the Caribbean are ending 1997 with their best results in 30 years, according to a UN commission. Page 5

Mexican union boss set free
Joaquín Hernández Galicia, legendary ex-leader of Mexico's oil workers' union, has been freed from jail nearly nine years after troops with a bazooka blasted down the door of his mansion to arrest him. Page 5

South Korean poll
South Korea will today select a new president in an election closely watched by overseas markets to determine Seoul's commitment to reform. Page 6

US plans trade crackdown
With the US trade deficit climbing to new heights, Washington plans to crack down on violations of the more than 200 trade agreements signed in the past five years, according to a top official. Page 4

Israeli dispute threatens talks
A dispute between Israeli ministers over troop redeployment threatens to overshadow talks between US secretary of state Madeleine Albright and Israeli PM Benjamin Netanyahu. Page 12

Sweden's Nazi gold admission
Sweden's central bank admitted it had acquired almost 60 tonnes of gold from Nazi Germany, but said it found no evidence it was stolen from Holocaust victims. Page 2

Titanic helps film receipts
US box office revenues could top $6bn this year, helped to fresh peaks by the opening of *Titanic*, the most expensive film ever made. Page 5

Mbeki finds a voice
The style and content of Nelson Mandela's extraordinary five-hour speech to the ANC suggested someone else had supplied many of the words. Page 4

Typhoon hits record
A 236 mph typhoon which hit the US Pacific island of Guam knocked an area of New Hampshire from the record books as the windiest place after 63 years.

BUSINESS NEWS

TRW to form new satellite mobile phone consortium

TRW, the US industrial group, is to acquire an equity stake in ICO Global Communications. The tie-up marks the beginning of consolidation in the satellite-based mobile phone industry. Page 13

Usinor, the French steelmaker, is to join Dofasco of Canada to build a C$180m ($126.5m) galvanising facility in Hamilton, Ontario. Page 13

Zeneca, UK pharmaceuticals company, has paid $500m for a US fungicide business owned by Japanese chemicals company Ishihara Sangyo Kaisha. Page 13; Lex, Page 12

Allianz, the German insurer, is on the verge of gaining control of AGF by securing a deal with Generali, the Italian insurer which is a rival bidder for the French insurance group. Page 13; Lex, Page 12

British Airways has beaten Richard Branson's Virgin Atlantic airline to fly the last non-stop route between Britain and the US available under a US bilateral treaty. Page 7

The Prague stock exchange's index of 50 top stocks rose 5.6 to close at 482.9 as Josef Tosovsky, former governor of the Czech National Bank, was sworn in as caretaker prime minister. Page 3

Ericsson and Nokia shares rose as the Swedish and Finnish telecommunications groups appeared close to winning an international battle to determine the key technology for Europe's next generation of mobile phones. Page 18

Credit Suisse Group has reshuffled the top management of its Credit Suisse First Boston investment banking arm, promoting Allen Wheat, 49, to chairman and chief executive. Page 14

Olympic Airways' chief executive and board of directors are to be sacked by the government in a move to restructure the state carrier before routes to the Greek islands are opened to competition next July. Page 2

Deutsche Telekom has unveiled aggressive price cuts for long-distance calls in 1998 in a challenge to rivals ahead of the liberalisation of the German telecommunications market next month. Page 18

General Motors is to reduce production at its new plant in Thailand and lower its investment by up to one-third due to the collapse in the South-east Asian vehicle market. Page 12

Timken, the US's biggest maker of industrial rolling bearings, is to buy a majority stake in Rulmenti Grei, a Romanian bearings producer, for $37m. Page 14

Amerada Hess, US oil company, and Saga Petroleum of Norway warned they would make big writedowns on the value of their interests in the Durward and Dauntless oil fields in the UK sector of the North Sea. Page 18

Sanwa, the Japanese commercial bank, is to buy the investment trust arm of Yamaichi, the Japanese broker which failed last month. Page 16; Lex, Page 12

Daiei, Japanese supermarket operator, has set up the first holding company to exist in the country since the end of the second world war. Page 13

China National Aviation Company, the latest redchip to make its debut on the Hong Kong stock market, saw its shares close unchanged at HK$1.63, despite a 3.35 per cent rise in the market. Page 16

Turkish PM threatens to withdraw EU application

Yilmaz accuses Europe of anti-Moslem discrimination

By John Barham in Ankara

Mesut Yilmaz, Turkish prime minister, threatened yesterday to withdraw Turkey's application to join the European Union unless the EU reversed its decision to exclude Turkey from its present plans for enlargement.

"If the EU does not meet in a summit to change its attitude before June, Turkey will withdraw its application for membership," Mr Yilmaz said.

Turkey is angry at an EU decision to deny it equal status with 11 other countries applying to join the EU. Turkey has threatened to boycott goods from all EU countries except the UK, France and Italy in retaliation.

Most European governments and the US want to anchor Turkey firmly in the western system and strengthen its secular traditions. But they are also demanding political and economic reforms and progress on human rights.

The EU, which has invited Turkey to attend a conference in London next March of present and potential EU members, had no immediate reaction.

But Klaus Kinkel, German foreign minister, said earlier that the EU's offer to Turkey was fair. The EU was "not some kind of banana union that can have more and more squeezed out of it".

Mr Yilmaz retorted: "They should not think Turkey is a banana republic. Kinkel is talking rubbish from start to finish."

The prime minister, still smarting from rejection at Luxembourg, denied that his "attitude was emotional". But it was unclear whether he was speaking off the cuff or announcing a historic shift in Turkish policy.

Mr Yilmaz accused European leaders of discriminating against Moslem Turkey. "People who want to change the EU into a Christian union have won. The next [EU] summit [in June] will be the place to show that this is not so," he said.

Turkish officials say that to cut loose from the EU, with which it has a customs union, would neither undermine Turkey's western orientation nor impose great costs.

Britain, which takes over the revolving six-month EU presidency in January, is expected to seek a rapprochement with Turkey after a cooling-off period over Christmas. The UK will probably reiterate the formal invitation to attend the London conference.

But Mr Yilmaz has said the conditions set at Luxembourg for Turkey's attendance, such as referring a territorial dispute with Greece to the International Court of Justice, are unacceptable. Turkey had previously indicated it accepted the court's jurisdiction.

Mr Yilmaz announced a break in political dialogue with the EU last Sunday, but the government will maintain bilateral relations with individual European governments, including Britain.

Besides the threatened boycott of EU goods, officials have urged selective taxes on European exports and renegotiation of the customs union. However, ministers deny that Ankara would block enlargement of Nato.

Mr Yilmaz was speaking in Brussels on his way to the US, where he is to meet Bill Clinton, the president, tomorrow. Mr Yilmaz wants to deepen traditionally strong ties with Washington to counterbalance Ankara's increasingly bitter relationship with Europe.

Andersen partners vote for demerger

By Jim Kelly, Accountancy Correspondent

Andersen Worldwide, the world's biggest accounting and consulting business, yesterday bucked the trend for global mega-mergers when its consulting arm said it wanted to break away from its accounting sister firm, Arthur Andersen.

Partners of Andersen Consulting meeting in San Francisco voted "unanimously" in favour of invoking binding arbitration, alleging breach of contract against Arthur Andersen leading to "irreconcilable differences" between the firms.

George Shaheen, global head of Andersen Consulting, said: "The right answer, and the fair answer, is to put the legal agreements aside and go forward as two independent businesses into the market place."

Although the two halves of the organisation are run as separate businesses, they are held together under Andersen Worldwide by contracts that have caused internal tensions and public disputes over competition and governance.

Jim Wadia, global head of Arthur Andersen, tried to stop the breakaway by offering concessions to the San Francisco meeting, but almost 90 per cent of partners decided to seek arbitration.

Rules for arbitration by the International Chamber of Com

Continued on Page 12

Yen rebounds on Hashimoto move

Ryutaro Hashimoto's announcement followed assurances that personal taxes would not be reduced AFP

Global markets surprised by Japanese income tax U-turn

By Paul Abrahams in Tokyo

Ryutaro Hashimoto, Japan's prime minister, yesterday astonished the markets when he performed a policy U-turn by announcing emergency income tax cuts. The move followed his repeated assurances that personal taxes would not be reduced.

After Mr Hashimoto's surprise announcement, at a hastily summoned press conference, the yen and stock market surged forward. However, some economists questioned how great the impact of the Y2,000bn ($15bn) tax cuts would be on the moribund Japanese economy.

The cuts, the latest in a string of policy announcements over the past two days, helped the yen rebound strongly in Tokyo. It rose 4.4 per cent against the dollar to close at Y127.

The currency's rise was assisted by aggressive buying by the Bank of Japan which sold US dollars for the first time in five years. Analysts said the bank had sold as much as $1.5bn. Its aim was to warn speculators, who had expected the yen to fall as low as Y150, that the Japanese currency was not a one-way bet. The US has repeatedly expressed concern about the yen's weakness and the country's growing trade surplus.

"We have taken decisive measures to cope with an excessive depreciation of the yen," said Eisuke Sakakibara, vice minister of finance for international affairs.

The Nikkei 225 average of leading shares, which had fallen in early trading to 15,985, surged more than 1,000 points on Mr Hashimoto's news. Eventually it closed 555 points up on the day – or 3.48 per cent – at 16,541. The bond market was weaker, however, on concerns that tax cuts and other measures would result in the issue of deficit-financing bonds. The yield on the benchmark eight-year bond rose in Tokyo from 1.635 per cent to 1.69 per cent.

Mr Hashimoto brushed off suggestions he should resign because of his U-turn. "There were some who said I might be asked to take political responsibility for my decision, but that is a small matter compared with what I have to do now," he said. He insisted that, in spite of the tax cuts, he remained committed to reducing the government's fiscal deficit.

Bill Clinton, the US president, telephoned Mr Hashimoto to welcome the tax cuts as a "very constructive" measure. The US ambassador in Tokyo, Thomas Foley, said the move was a positive step. However, many analysts were more sceptical about the importance of the Y2,000bn tax cuts. They pointed out that April's increase in sales tax had withdrawn Y5,500bn from the economy and that taxpayers had lost Y2,000bn of rebates at the same time.

It was also unclear whether the Japanese public would save their new found rebates or spend them.

Prod to economy, Page 6
Editorial comment, Page 11
Lex, Page 12
Bonds, Page 20
Currencies, Page 21
World stocks, Page 32

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8000.68	(+24.37)
NASDAQ Composite	1558.94	(+5.94)
Europe and Far East		
CAC40	2893.25	(–18.93)
DAX	4158.58	(+74.71)
FTSE 100	5190.8	(–12.6)
Nikkei	16,541.06	(+555.85)
US LUNCHTIME RATES		
Federal Funds	5¾%	
3-mth Treas Bills: Yld	5.226%	
Long Bond	101⅝	
Yield	5.99%	
OTHER RATES		
UK 3-mo interbank	7⅝%	(7⅝%)
UK: 10 yr Gilt	106.7891	(106.859)
France: 10 yr OAT	101.34	(101.31)
Germany: 10 yr Bund	104.99	(104.97)
Japan: 10 yr JGB	108.93	(108.86)
NORTH SEA OIL (Argus)		
Brent Dated	$18.96	(18.86)

GOLD		
New York: Comex		
(Dec)	$289.1	(283.4)
London:	$287.95	(285.45)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6520	
DM	1.7725	
FFr	5.93375	
SFr	1.4343	
Y	127.05	
London:		
£	1.6480	(1.6394)
DM	1.7718	(1.7846)
FFr	5.9324	(5.9787)
SFr	1.436	(1.4432)
Y	127.30	(130.845)
Tokyo close		Y 127.825
Sterling		
DM	2.9163	(2.9149)

London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York
Los Angeles · Tokyo · Hong Kong

9 770174 736142 51

Inside

COMMENT & ANALYSIS

- Clinton's options on Bosnia
Editorial, Page 11
- Brzezinski's eagle-eyed world view
Book Review, Page 10
- US welfare lesson for the UK
Editorial, Page 11

TECHNOLOGY

- Search for the perfect pallet
Technology, Page 8
- Enter the superlubricant
Technology, Page 8
- New knees from pig parts
Technology, Page 8

FINANCE

- Civilisation and insurance
Page 11

- Mandela's South African successor, Thabo Mbeki
International News, Page 4

EMERGING MARKETS

- Bargain-hunters boost India
World Stock Markets, Page 32
- Highlights at a glance
Global Equity Markets, Page 31

FT.com: the FT web site provides updated news and an updated archive of back articles at http://www.FT.com

International 4-7 Europe 2,3 Technology 8 Arts 9 Letters 10 Companies 14-19 Currencies 21 Bonds 20 World Equities 26-32

French post office insurance plan curbed

By Andrew Jack in Paris

France's Socialist-led government has decided that the sale of non-life insurance products by the national post office network will be severely restricted. It is now unlikely to start until at least 1999.

The government took its decision after French commercial insurers criticised the post office's plans to launch a range of insurance products with the AGF company as early as next year.

Dominique Strauss-Kahn, the economics, finance and industry minister, said on Tuesday that he would not allow non-life insurance to be incorporated into the new plan for the post office which is currently up for negotiation with the government. He said there might be scope for experiments in personal insurance.

His comments mark a setback for the rapid diversification into financial services, including limited banking services and life insurance products, launched by the post office in recent years as a way to support its national network of branch offices.

Advisers close to AGF indicated yesterday that the company was unlikely now to develop products during 1998.

Its discussions with the post office in recent months have also been thrown into doubt by the takeover battle for the French insurer AGF, which is set to be concluded by majority control passing into the hands of Allianz of Germany.

The French commercial insurers argue that the post office already distorts competition by operating with advantages including low tax charges and opaque accounting, as well as because it is under no obligation to provide a return to its shareholders.

Mr Strauss-Kahn stressed in a speech that the current restructuring in the insurance sector should take place in a "ordered and equitable manner". He said he had an obligation to supervise the control of trade credit insurance and ensure that changes did not destabilise the sector.

His role was not to intervene in private sector operations to determine the way in which they were carried out.

The privatisation offer for GAN, the troubled state-owned insurer, would be launched in the next few days with the objective of a sale being completed by next summer, he added.

Mr Strauss-Kahn defended France's existing no-claims bonus system for car insurance, which is centrally determined and not left to individual insurers to set. He said he had made his views clear on the subject to the European Commission.

German bank in no hurry on rates

By Peter Norman in Bonn

The Bundesbank has reported an improvement in German monetary conditions in recent months, suggesting that it is in no hurry to raise short-term interest rates after increasing them in October.

In its latest monthly report, the central bank said it was easier to operate interest rate policy "with a steady hand" after a slowdown in monetary growth and an easing of underlying inflationary pressures.

October's moderate tightening of monetary policy, when the Bundesbank's securities repurchase or "repo" rate was raised to 3.3 per cent from 3 per cent, was intended to weaken monetary growth. This, the bank reported, had happened.

The bank's central council is due to review money supply policy today at its final meeting of the year. The report said M3, its most important measure of broad money, was up an annualised 5.1 per cent in October compared with the average of the final quarter of last year. Money supply growth was thus "visibly slower" than the 5.8 per cent of August and practically in the middle of the target range of 3.5 per cent to 6.5 per cent for this year.

The report also highlighted a brighter price outlook, with consumer price inflation falling to 1.9 per cent in November year-on-year from 2.1 per cent in August. Import prices were rising more slowly, reflecting falling commodity prices and a decline in the dollar against the D-Mark.

The bank reported no knock-on effect from recent steep price increases in public services and a "decisive" contribution to stability from falling unit labour costs.

While the bank said the economic outlook was positive, it had no shortage of concerns. With 4.53m officially jobless, unemployment remained "Germany's most urgent economic problem".

The bank urged continued efforts to consolidate public budgets, even though public sector deficits fell in the third quarter compared with the same period of last year. It also warned that the finances of the state pay-as-you-go pension system remained under strain despite this month's decision to help finance the system by raising value-added tax.

The report also complained about the unbalanced nature of Germany's recovery. Strong exports co-existed with lacklustre domestic demand; construction was weak while industrial output was growing, and the gap between affluent western Germany and the former communist east was widening, it said.

Irish storm rises on immigrants

Refugees are encountering a racial backlash, writes **John Murray Brown**

Ireland, a nation with a tragic history of emigration, is struggling to redefine its attitudes to foreigners as immigrants from eastern Europe and the developing world seek work and refuge in the increasingly prosperous country.

Community groups and human rights lawyers accuse the government of stalling on refugee legislation which would have brought Ireland into line with the rest of the European Union but which officials now see as "too progressive".

Parliament held a special debate on the issue this week after criticism of alleged racist comments by a government backbencher.

The number seeking asylum – as distinct from so-called "programme-refugees", who arrive as part of a United Nations agreement – has risen from 39 in 1992 to nearly 4,000 this year.

The numbers are tiny by EU standards, but this is nevertheless a new phenomenon for Ireland, where fewer than 5 per cent of the 3.6m people are non-citizens. The foreign arrivals have triggered a racial backlash in some inner city areas, where many asylum-seekers are in temporary accommodation.

Asylum-seekers also face bureaucratic delays, with just 66 decisions taken last year, resulting in the present backlog of 4,000 cases.

Rosemary Byrne, law lecturer at Trinity College, Dublin, says: "For people without a valid claim, Ireland is seen as the place to go."

John Bruton, the leader of the opposition Fine Gael party, told MPs during this week's debate: "Many Irish people like to imagine we are benign, tolerant and easy-going, but when our successful economy becomes a refuge for those who are different from us, the myth is challenged and shown for what it is." A "more humane and less costly" approach would be to declare an amnesty for the 4,000 refugees, he added.

Before stepping down as president earlier this year, Mary Robinson warned that racial prejudice was "rearing its ugly head". Human rights lawyers have accused tabloid newspapers of whipping up these sentiments, depicting immigrants as beggars, welfare scroungers and petty criminals.

The lawyers also blame the authorities, who have introduced spot checks at ports and railway stations to deter illegal immigrants arriving from the UK. Under UK rules, refugees have 48 hours to apply for asylum – time enough to catch the boat to Ireland, where benefits are more generous. Refugees receive about I£150 ($220) a week, but they cannot attend Irish schools or take work while applications are processed.

Dublin street actors portray the treatment of refugees Maxwell

Under the EU's Dublin convention of 1990, a refugee has to apply for asylum in the first "safe haven" country, which, because of its peripheral location, is unlikely to be Ireland. Ireland only signed up to the convention in September.

Last month, in a ruling that community leaders fear could lead to deportations, the Supreme Court decided a Russian woman had no right to have her case heard in Ireland, on grounds she had a valid UK visa.

The Irish Council of Churches is urging the government to adopt the new refugee legislation in full, pointing out a refugee can now be sent back without a hearing, on a civil servant's decision.

Stakes are getting higher in the battle over the issue of Holocaust assets

Swiss banks face biggest dilemma

By William Hall in Zurich and John Authers in New York

The big three Swiss banks are facing probably the most difficult decision in their history: Should they try and reach a quick out-of-court settlement of the multi-billion-dollar US class actions from angry Holocaust survivors?

Or should they stick with their original plan of letting an international group of experts, led by Paul Volcker, the former US Federal Reserve chairman, find out once for all whether they really are sitting on billions of dollars of unclaimed bank accounts dating back to the Nazi era?

The stakes were raised substantially last Sunday when Stuart Eizenstat, US under-secretary of state, held talks in Zurich with the chief executives of the banks – Credit Suisse, UBS and Swiss Bank Corporation – and lawyers leading the US class actions.

It was the first time Switzerland's top bankers and their US legal opponents had faced each other across the same table, fuelling speculation they may no longer be relying solely on Mr Volcker's good offices to sort out a problem which has tarnished their reputation.

Less than a week earlier, a US conference, hosted by Alan Hevesi, the New York city comptroller, called off a boycott of Swiss banks for three months to give them time to reach a global settlement.

Mr Hevesi argued to municipal politicians who wanted to take immediate action that sanctions would harm the chances of an out-of-court settlement. However, there is strong sentiment in favour of sanctions in the US, if no settlement is reached in the next few months.

The Swiss banks argue that the class actions are "wastefully duplicative of co-operative efforts under way to resolve Holocaust victims' claims". Apart from the Volcker commission, the Swiss have set up an international historical commission and a SFr275m ($196.4m) fund to help needy Holocaust victims.

Mr Volcker argues that if the class actions come to court, it will enormously complicate his job of searching for dormant accounts. But lawyers leading the US class action are not satisfied with the Volcker process because it does not cover the question of looted Nazi assets.

The view of one lawyer, Michael Hausfeld, is that any redress should go beyond the remaining dormant bank accounts. He reckons Europe's Jewish community had $12bn in assets, valued at 1940 prices, before World War II, and 85 per cent of that was laundered through Swiss banks.

This explains how lawyers can argue that the banks' liability is far higher than the SFr73m of unclaimed bank accounts found so far.

Paul Volcker: good offices

A Brooklyn judge, Edward Korman, has yet to decide to hear the case. There has been no action since a hearing on August 1, when the banks applied for the case not to proceed on the basis that the Volcker process was already working towards compensation.

"As soon as the judge rules, the process will either die or start moving quickly," says Edward Fagan, one of the lawyers involved. If the judge allows any part of their claim to proceed, this would give the plaintiffs' lawyers huge powers of discovery, backed by the US courts, to examine Swiss banks' records.

The process could drag on for years and be highly embarrassing for the Swiss banks. Hence the suspicion that some Swiss bankers may be contemplating a sizeable settlement before the matter gets to court.

Some believe the recently announced merger of UBS and Swiss Bank Corporation will make an out-of-court settlement easier.

However, the big drawback for the Swiss banks is that a quick settlement now could leave them open to further law suits several years down the line.

Mathis Cabiallavetta, chief executive of UBS, said last weekend: "If we cannot capture everything in a potential solution that on balance settles all the claims in one financial package, then I won't be a part of it".

Sweden admits it had gold from Nazis

By Tim Burt in Stockholm

Sweden's central bank yesterday admitted it had acquired almost 60 tonnes of gold from Nazi Germany during the second world war, but said it had found no evidence that it was stolen from victims of the Holocaust.

According to a 250-page report published by the Riksbank, some of the gold was looted from the central banks of Belgium and the Netherlands, even though the Swedish government had been warned by the Allies not to deal in property stolen from Nazi-occupied countries.

Nevertheless, the report said: "No evidence has been found in the Riksbank archives that gold acquired by Sweden from Nazi Germany came from individual Jews or victims in the concentration camps."

Publication of the report comes at a sensitive time for Sweden, a traditionally neutral state, where the wartime record of some of its largest industrial groups has been criticised over dealings with the Nazis. Some of those companies – such as the ball bearings manufacturer SKF – form part of the Wallenberg industrial empire, which has been accused of appeasing German customers during the war years.

Yesterday, an independent archives inquiry commissioned by the Riksbank said the Swedish government had sanctioned the acquisition of gold from the Nazis after being assured by the German central bank that the consignments would not include any looted assets.

The findings have been passed to a government commission investigating Sweden's wartime role and the handling of Jewish assets. It is due to publish its report next year.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg (ISSN 0174 7363). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

R

Greek airline chief replaced

By Kerin Hope in Athens

Greece's Socialist government is poised to sack the chief executive and board of directors of Olympic Airways in an effort to restructure the struggling state carrier before routes to the Greek islands are opened to international competition next July.

Tasos Mantelis, transport minister, says he will replace Jordan Karatzas, who has been chief executive for 18 months and has been criticised for abandoning a restructuring plan agreed with the European Commission in 1994 in response to pressure from Olympic's trade unions.

Mr Mantelis says he will appoint outsiders to run the airline under a recent law designed to introduce private sector management standards at state-controlled corporations. "Olympic urgently needs an overhaul so that it can handle tougher competition from next summer," he says. "Political pressures have caused interference with the way the airline is managed and have slowed its modernisation. This has to stop."

From next July, Olympic will face competition from other European carriers on routes to the islands, after the expiry of an EU deadline for completing deregulation. EU carriers will be able to offer direct flights to the main Greek tourist resorts, either from European cities or from Athens.

A Dr35bn ($125m) capital increase agreed with the European Commission in 1994 has been delayed because Olympic failed to comply with other terms of the restructuring agreement.

The carrier's operating costs have soared by over 40 per cent in the past two years, mainly because of high wage increases granted to the increasingly militant unions. The flight engineers have threatened to strike over Christmas and the new year, while temporary cabin crews staged a work-to-rule this week.

Today a parliamentary committee is due to approve the appointment of Nikos Kardasis as chief executive. His selection marks a departure from the usual Greek practice of making patronage appointments at state corporations. Mr Kardasis, who runs Jet Air, the Indian regional carrier, was chosen through an international executive search conducted by Egon Zehnder, the international headhunters.

Mr Mantelis says he will sack the carrier's 15 directors next week and replace them with a nine-member board in which "people with business experience, not political personalities, will predominate".

The new chairman is to be Emmanuel Fthenakis, former president of Fairchild, the US aerospace company. Mr Fthenakis ran Olympic for three months in 1993 under a former conservative government before deciding to leave Greece because of repeated kidnapping threats.

Olympic returned to profit in 1995 after the Commission agreed to the write-off of more than Dr400bn in accumulated debt. But the company's only source of profit is its monopoly of ground handling operations at Greek airports, which will end on January 1.

NEWS DIGEST

EU warning on reserves update

European Union governments which revalue foreign exchange reserves cannot use the paper profit to reduce their public deficits, Eurostat, the EU's statistical agency, said yesterday. The ruling is in line with the view of the Bundesbank, which objected last spring to the Bonn government's plan to revalue the German central bank's gold and foreign exchange reserves this year.

The gold plan was subsequently postponed until next year, but Eurostat's ruling means that the German finance ministry will have to look to other measures to keep the public deficit below the EU's agreed target of 3 per cent of gross domestic product.

Eurostat also looked at capital gains or losses made as a result of regular interventions in the foreign exchange markets. Several countries, notably Belgium, Germany, and Spain, would have to make corrections in order to calculate their deficits. Officials in Bonn said this would result in only minor adjustments. *Lionel Barber, Brussels*

■ DEAL WITH SOCGEN

MasterCard's French progress

Europay, the European arm of the MasterCard payment card group, has signed up France's Société Générale to issue its Cirrus cash machine cards. The deal marks MasterCard's first breakthrough with the big three French banks.

Société Générale, like Banque Nationale de Paris and Crédit Lyonnais, has traditionally been one of the Carte Bleue banks issuing Visa-branded payment cards. It will now add the Cirrus brand to its *Service Eclair* cash machine cards, giving customers access to money from 21,000 ATMs in France and more than 165,000 across Europe.

Louis-Noël Joly, Europay's chief executive, said the move was significant because the traditional Carte Bleue banks had been strongly attached to the Visa brand, MasterCard's arch-rival: "Our market share in France is now around 46 per cent, so in a country where we were weak, we are now coming close." *George Graham, London*

■ PRICES AND WAGES

Oslo raises growth estimates

Norway's central bank yesterday raised its forecasts for price and wage growth in 1998 and said the booming oil economy would face a hard landing in a few years if fiscal policy was not reined in. In a quarterly outlook, the bank said it expected the economic upturn to gather pace in 1998 and 1999. Given the current trend, there was good reason to be on guard against expansive shocks, it said.

"Both the outlook for overheating in the economy and the risk of new shocks that could increase the economic cycle call for tight economic policy," the bank governor, Kjell Storvik, said in a statement. "The alternative could be a hard landing for the Norwegian economy in a few years."

Norges Bank added 0.5 percentage points on its estimate for inflation next year to 2.75 per cent, saying the growth was primarily because of higher indirect taxes in the 1998 budget. Underlying inflation was expected to rise to 2.5 per cent in 1998 from 2 per cent in 1997 because of higher wage growth and import prices. *Reuters, Oslo*

■ JOURNALISTS PROBE SMUGGLING

Belarus trial for Russians

Two journalists employed by a Russian television station went on trial in Belarus yesterday in the latest episode of an affair which has strained relations between Moscow and Minsk.

Pavel Sheremet, a Belarusan citizen who heads the Minsk bureau of ORT, a Russian television station, and Dmitry Zavadsky, a Russian cameraman, are accused of illegally crossing a border between Belarus and Lithuania. The border crossing was part of the reporters' investigation into smuggling, one of the most lucrative businesses in the impoverished Belarus economy.

The arrest of the journalists this summer further blackened the reputation of Alexander Lukashenko, Belarus's president, as an authoritarian leader with little respect for basic civil liberties such as freedom of the press. The case has also strained relations between Belarus and Russia, which is grateful for Mr Lukashenko's pro-Moscow politics but has been embarrassed by his dictatorial ways.

Judges in Oshmyany, the town in western Belarus where the journalists are being tried, yesterday postponed hearings until next Tuesday. The reporters could face jail terms of up to five years. *Chrystia Freeland, Moscow*

■ ESTONIAN SURPLUS

Budget passed 3 months early

Estonia's parliament yesterday passed the 1998 budget three months ahead of deadline. The budget, with total expenditures of EKr15bn ($1.06bn), was comfortably passed by 62 votes to 29. The government, which is constitutionally required to run a balanced budget, will be running a surplus of up to EKr54m next year, in an bid to slow economic growth. The money will be placed in a stabilisation fund, which now totals around EKr500m.

Parliament's finance committee this week expressed concerns that the budget's revenue targets might not be met if economic growth was less than the 5 to 6 per cent predicted for next year. The government decided to tighten fiscal policy in early October, before the subsequent turmoil in international capital markets raised local interest rates, which has led to lower growth estimates.

The budget approval process, which began in October, was marred by opposition demands for pay rises for teachers. Following a stand-off with the government the opposition settled for a compromise, withdrawing hundreds of amendments which could have prolonged the process. *Matej Vipotnik, Tallinn*

■ ECONOMIC WATCH

Spanish growth rate quickens

Spanish economic growth accelerated in the third quarter to 3.4 per cent compared with the same period last year, according to the national statistics institute. It was the fastest rate since 1990. The figure, slightly higher than an earlier Bank of Spain estimate compared with a revised 3.2 per cent for the second quarter. Rodrigo Rato, finance minister, said the rise in gross domestic product was at the high end of government expectations, and reaffirmed his forecast of 3.5 per cent growth next year.

Analysts at Banco Central Hispano suggested the figures might be an underestimate, putting overall third quarter growth at 4.2 per cent and forecasting a 1997 average of 3.6 per cent. The Institute for Economic Studies, an independent body, also predicted growth this year above the government's objective of 3.2 per cent. *David White, Madrid*

Spanish divide over history

By Tom Burns in Madrid

A dispute over the teaching of history has dealt José Maria Aznar's centre-right government its first big setback in parliament, revealing wide differences about the interpretation of the country's past.

During the present government's term in office, minority nationalist parties have supported Mr Aznar's restrictive budgetary policies to ensure Spanish membership of European monetary union. But they have now balked at the Popular party government's plans to establish a common curriculum on the historical events that shaped Spain.

The nationalists – Catalans, Basques and MPs for the Canary Islands – voted alongside the opposition Socialist party on Tuesday night to defeat the government by 180 votes to 151. The motion called on the government to withdraw a "humanities plan" drafted by a committee of academics chosen by the education ministry.

The vote underlined Mr Aznar's dependence on the nationalists and the ambivalent nature of their support for his centre-right government. While they broadly agree with the Popular party's economic policies, they are deeply suspicious of any encroachment Madrid on their nationalist principles.

The humanities plan has touched a raw nerve among politicians in regional centres such as Barcelona and Bilbao, who see it as a throwback to the Franco era, when teaching was tightly controlled after the Spanish civil war.

Esperanza Aguirre, education minister, yesterday accused the Socialist party, which had previously backed the curriculum proposals in the senate, of "political opportunism" in order to embarrass the government and curry favour with the nationalists.

The plan, in fact, implements a secondary education bill that was put forward by the Socialist party when it was in power.

The blanket opposition from nationalist parties to the education ministry's proposals illustrated a far more complex dispute about what history should be taught and how students should learn it.

Nationalists, in particular the Catalans and Basques, view the creation of a unified modern Spanish state as a process that eroded earlier liberties which they want to resurrect within a federalist framework of a "plurinational" Spain.

Ms Aguirre said those who had voted against her proposals had scored a "pyrrhic victory", because she was determined to introduce them. Mr Aznar appealed for a greater consensus saying "reason and common sense must prevail."

Poland's small businesses rise from the flood

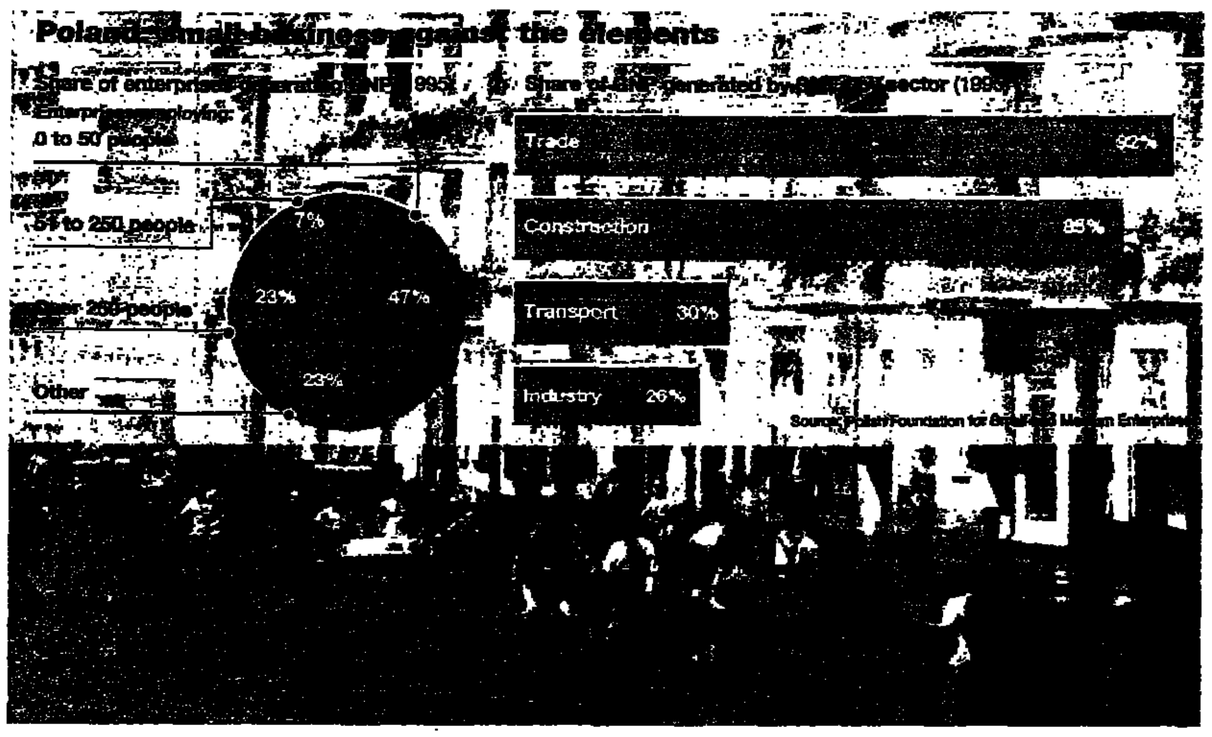
This month Andrzej Dzwigaj's clothes shop in Klodzko opened for the first time since July, when the worst floods for over a century destroyed 300 small businesses in the town and about 18m zlotys ($5m) of their stock and fixed assets.

Five months later Mr Dzwigaj and his colleagues are struggling to rebuild their livelihoods with the determination which has made the country's small business sector the backbone of Poland's far-reaching market reforms.

Now that their shops are more or less restored, Klodzko's small entrepreneurs are finally being aided by a new fund for micro-businesses, which has provided more practical help than more established sources.

In contrast with the days before the 1989 fall of communism, when private businesses operated on the margins of the economy, today small and medium-sized private outfits provide a third of gross domestic product and almost 60 per cent of non-agricultural jobs.

But the companies grew up in haphazard conditions, and in the early 1990s entrepreneurs financed themselves from personal savings and loans from family and friends.



In Klodzko and hundreds of small towns damaged by the floods, businessmen are having to do the same once again. Assistance from the government and outside institutions such as the European Union (EU) is meagre.

The local authority in Klodzko, where unemployment hovers around 20 per cent, is also unable to help. The town is suffering from lost tax revenues from the destroyed businesses and itself suffered damage to housing and infrastructure worth an estimated 128m zlotys – more than four times its annual budget.

This month, however, in the first sign of significant outside help, Mr Dzwigaj and others drew low-cost loans disbursed by the Fundusz Mikro (FM), a micro-lending subsidiary of the Polish American Enterprise Fund, funded by the US Congress.

Over the past three years FM has lent $10m at commercial rates to 5,000 businesses whose scale of operations does not qualify them for bank loans.

Now the Enterprise Fund, which operates as a venture capital fund, has allocated 12.3m zlotys to be lent through FM to affected businesses in response to the floods. The credits carry a flat interest charge of 10 per cent payable on the maturity of the two-year loan.

"I'll turn the 7,000 zlotys loan over several times within months," Mr Dzwigaj, who has managed to open his shop before Christmas, says with quiet satisfaction. His was one of 305 local businesses which took out the 2.1m zlotys worth of loans in one busy day in Klodzko's oak-panelled town hall.

In contrast to banks and government agencies, FM requires little documentation other than proof of personal identity. Under the terms of the Mikro scheme borrowers have to organise themselves into groups of five, with members guaranteeing repayment of the loan for each other and mutually monitoring their economic performance over the life of the credit.

"We have a very low failure rate on our loans," says Rosalind Kopisarow, an effervescent former J.P. Morgan banker who set up Mikro. "We save on time and costs by getting the lenders to do the work of monitoring the loans and make the group responsible for repayment."

By contrast, the EU has been experiencing problems with distributing Ecu64.6m ($72m) worth of grants, mainly for the reconstruction of communications networks and public buildings.

The EU disbursement is suffering delays as local government authorities take their time over paper work and deciding how to spend the money. EU rules also mean time-consuming public tenders have to be held for the purchase of equipment and services provided under the aid programme.

Klodzko was one of the few places where the local authorities decided to spend their Ecu346,000 grant on the town's small businesses. But lists of recipients were only recently approved by EU agencies.

Mr Dzwigaj is still looking out for more aid. But decisions on how to distribute a further Ecu5m worth of EU funds assigned to helping Poland's small businesses are only now being approved by the EU, which has had to wait several months for the Polish government's recommendations.

Though the new funds will provide relief, if more long-term loans are not forthcoming, many of the flood-damaged businesses in Klodzko and elsewhere could face financial ruin.

Christopher Bobinski

Share rise greets new Czech PM

By Anthony Robinson, East Europe Editor

Share prices rose on the Prague stock exchange yesterday as Josef Tosovsky, former governor of the Czech National Bank, was sworn in as caretaker prime minister. The PX50 index of 50 top stocks rose 5.6 to close at 482.9 and 12 out of 17 continuously traded stocks rose on the day.

But Vaclav Klaus, the former prime minister, whose government fell over a party funding scandal two weeks ago, said he doubted a new government could be set up before the new year.

President Vaclav Havel's decision to chose the politically neutral banker to head what is expected to be an interim government until early elections next summer has been accepted by both the previous coalition parties and the main opposition Social Democrats.

But some international bankers say that although Mr Tosovsky managed to defend the central bank's independence and defied government pressure for a looser monetary policy, his attempts to create a banking regulatory regime fell short.

"Mr Tosovsky was a foreign exchange trader in London before becoming a central banker and never really came to grips with the complex issues of banking regulation and supervision. The Czech banks deteriorated on his watch," said one critic.

Albania agrees foreign role in chrome and oil

By Kevin Done, East Europe Correspondent

Albania has agreed to two significant foreign investments in its oil and metals industries, as part of the new Socialist-led government ambitious programme to restructure the country's beleaguered economy.

The projects, two of the largest foreign investments in the country so far, come just months after Albania descended into violent anarchy, with the collapse of a series of fraudulent pyramid finance schemes.

The deals are likely to boost export revenues and strengthen prospects for further privatisations.

Fatos Nano, prime minister, predicted that the economy would accelerate next year, with a jump of 10 per cent in gross domestic product after a fall in GDP of around 6 per cent this year.

A consortium of British and Italian companies is to undertake the rehabilitation and modernisation of a large part of Albania's chrome industry with the aim of making it a leading supplier of ferrochrome to European stainless steel producers.

Contracts for plant, equipment and project management worth around $41m have been signed with Albkromi, the Albanian statechrome group, which should let the country more than triple ferrochrome output to 80,000 tonnes a year and almost double output of chrome ore to 250,000 tonnes a year within two years.

Albania is estimated to have the world's fourth largest reserves of chrome ore, but many years of mismanagement have pushed it well down the league of ferrochrome producers.

In a separate deal a consortium led by Premier Oil, the independent UK exploration and production company, and including Preussag of Germany, the International Finance Corporation, the private sector funding arm of the World Bank, and Albpetrol, the state-owned oil company, is to invest $250m to develop Albania's biggest existing onshore oil field.

The project, which includes building a 40km pipeline to the Adriatic coast between Vlore and Durres, is expected to increase the volume of crude oil output by more than three times to over 30,000 barrels a day. Project finance is being negotiated with the IFC and is expected to include a loan of about $100m.

NEWS: INTERNATIONAL

Winnie decides to fight another day

By Roger Matthews in Mafikeng

Winnie Madikizela-Mandela, former wife of South Africa's president, drew thunderous applause from the 3,000 delegates at the African National Congress conference in Mafikeng yesterday when she refused nomination for the post of deputy president.

It was the second ovation in two days for South Africa's most resilient and controversial politician. Having been embraced and kissed on Tuesday by President Nelson Mandela in a gesture of reconciliation which delighted the ANC faithful, Mrs Mandela pulled off another coup yesterday by declining to force a contest for the party's second most important post.

Her refusal was an immediate political gift for Thabo Mbeki who minutes earlier had stood arms aloft as he was elected unopposed to succeed Mr Mandela as party leader. The ANC leadership was anxious to avoid a contest for the deputy position, and feared that despite strenuous efforts to block Mrs Mandela's progress she might just pull off a shock victory.

Mr Mandela and Mr Mbeki sat stony faced as Mrs Mandela was nominated from the floor of the conference and seconded by 25 delegates. She was then asked if she would accept the nomination. After a pause she declared: "Comrades, I apologise for having to decline."

The gesture by Mrs Mandela also avoided the risk of defeat, and is likely to strengthen her chances of performing well in tomorrow's election for the national executive committee. In the last election three years ago she came fifth out of the 60 selected, and if she was to maintain or improve on that position her political rehabilitation within the ANC would be complete.

Less than a fortnight ago Mrs Mandela's political obituary was widely written as she faced a barrage of accusations, including murder, torture and kidnapping, during nine days of hearings held by the Truth and Reconciliation Commission. But Mrs Mandela's gamble in demanding a public hearing, and her blanket denial of guilt, seems to have paid off.

Jacob Zuma, national chairman of the ANC, party leader in KwaZulu-Natal, and the candidate of the leadership was subsequently elected deputy leader. But whereas Mr Mbeki is assured of succeeding Mr Mandela as national president in 1999 it is less likely that Mr Zuma will advance further.

The new secretary general of the party is Kgalema Motlanthe, general secretary of the National Union of Mineworkers, a low profile member of the national exécituve who has a reputation for efficient management. His unopposed election further strengthens the ties between the ANC and the unions, at a time when the party needs union activists to sustain its general election campaign.

Mbeki finds a voice through Mandela

South African president's uncompromising speech was a foretaste of a new era, writes **Roger Matthews**

Handover: Thabo Mbeki (left) is congratulated by Nelson Mandela on his election as ANC president Reuters

Nelson Mandela is no one's puppet but the style, phrasing and content of his extraordinary five-hour speech to the African National Congress on Tuesday suggested someone else had supplied many of the words and much of the emphasis. Delegates had no doubt that one of the principal authors was Thabo Mbeki, Mr Mandela's deputy, who yesterday succeeded him as leader of the ANC, and in 1999 will become South Africa's president.

It was apparent that Mr Mandela's speech, with its brusque language and sweeping attacks on a range of targets, was less a valedictory offering than a foretaste of a new era. It contained little about reconciliation, for which Mr Mandela is justly famed, and much about the perceived enemies of the ANC, who were cited as an obstacle to national transformation and as determined to prevent real power being transferred to the black majority.

Mr Mbeki is well placed to know what he is being bequeathed by Mr Mandela. He is already running the government on a day-to-day basis, as Mr Mandela confirmed at the weekend. His immediate challenge is to take charge of a party where the leadership is beginning to sense mounting frustration among its grassroots supporters at the slow pace at which political power is delivering economic benefits.

Mr Mbeki has needed to have a good antennae. Much of his career with the ANC was spent in exile where he developed diplomatic skills but lacked the opportunity to build his own constituency. "He has had to learn how to manoeuvre within the organisation, which he does brilliantly," said a colleague. "He tries not to alienate, but to accommodate, and is always aware of how opinion is swinging."

His master stroke on Tuesday may have been to ensure rapt attention for his planned agenda by having it read out by President Mandela. "In essence, Mandela's speech was the policy document of the national executive; had it been tabled in the normal way, no one would have paid much attention," said a diplomat.

"But because Mandela was speaking, it inevitably attracts far more attention, especially as it was clearly not the normal Mandela style. By doing it this way, Mbeki can fairly claim that though there may appear to be a marked change in style, all he is doing is to continue Mandela's stated policies which were approved by the party conference."

Those policies appear to reflect Mr Mbeki's key concerns. Politically, there is certain to be greater emphasis on the pace of social transformation which in essence means black empowerment.

Mr Mbeki is frustrated by what he sees as the poor response by much of the white population, particularly the corporate sector, to the message of reconciliation preached by Mr Mandela. By linking the mainly white political parties to that accusation, Mr Mbeki is preparing for what is likely to be one of the ANC's main electoral themes.

On the economic front, the room to manoeuvre is more limited. Mr Mbeki is as committed to the government's macro-economic policy as Mr Mandela is to racial harmony. He appreciates better than most cabinet members the need to maintain fiscal discipline, to keep spending in check, and to adapt to global competition.

Mr Mandela's speech contained crowd-pleasing attacks on the unchecked power of a few multinationals, the ugliness of profit without social responsibility, and the unfairness of globalisation, but there was no hint that on core issues such as the reduction of the budget deficit, Mr Mbeki was ready to bow to pressures from his trade union and communist allies.

"I suppose he's been quite clever. Because Mandela's speech took so much longer than expected, the conference may now hardly have time to discuss economic policy," said one ANC MP.

South Africans are expected to hear much more about the rest of Africa under an Mbeki administration. Mr Mbeki is taken with the idea of a "popular movement for the fundamental renewal of Africa" in which his government will make a full contribution.

But what was not made any clearer by Mr Mandela's speech is how these issues and concerns translate first into policy, then into legislative action. Mr Mbeki is liked and respected within the ANC, but maintains a personal reserve and seems to have few close political friends. South Africa will benefit from his smooth assumption of power, but is little closer to knowing how he intends to exercise it.

NEWS DIGEST

UN plans more Iraq inspections

Richard Butler, the United Nations' chief weapons inspector, will tell the Security Council today of plans for future inspections, which diplomats said were likely to take place soon, despite Iraqi recalcitrance. Mr Butler was expected to brief the council on his recent visit to Iraq and lay out a plan for a new wave of inspections, said western diplomats.

Tariq Aziz, Iraq's deputy prime minister, yesterday insisted Iraq had fully complied with UN demands to dismantle its weapons of mass destruction, saying: "There are no hidden arms." He said sanctions remained in force against Iraq because the US and "certain elements" were politically opposed to their lifting. President Bill Clinton on Tuesday called on President Saddam Hussein to give UN inspectors access to sites placed off limits. Mr Aziz said presidential palaces, were "not related to the business of disarmament" and were being "used to create a mysterious drama. . . in order to prepare the grounds for a military aggression".

Mr Aziz hailed "a more balanced international approach" towards Iraq, noting that commissioners from Russia, Britain and France had accompanied Mr Butler to Baghdad. Iraq believes it won last month's stand-off over UN arms inspections by broadening international involvement and reducing what it sees as US domination over the UN disarmament mission.

Laura Silber, New York and David Buchan, Brussels

■ TURKMEN GAS EXPORTS

Pipeline to Iran completed

The construction of a pipeline which will supply Turkmenistan gas to power plants in northern Iran has been completed, the Iranian news agency IRNA said yesterday. In a dispatch from the Turkmen capital, Ashgabat, the agency quoted a "reliable source" as saying work had been completed on the $190m, 200km pipeline connecting Korpedzhe gasfield to Kord-Kuy in Iran. The pipeline, which will boost Iran's hopes of becoming an export route for gas and oil from the Caspian Sea area, is due to be opened on December 29 by Mohammad Khatami, Iran's president, and Saparmurat Niyazov, his Turkmen counterpart. It will enable Turkmenistan gas exports to bypass Russia, breaking Moscow's monopoly as an export route.

Reuters, Tehran

■ IMF MEETING

Opposition to plea for funds

The International Monetary Fund will today consider a proposal by its managing director for a substantial increase in contributions from member countries.

On the second day of a two-day meeting, the IMF's executive board will also review progress made so far by Korea in implementing a reform package tied to IMF lending. If board members are satisfied with the progress, they will approve a second tranche of the $21bn loan agreed earlier this month. The proposal by Michel Camdessus for an increase in contributions in addition to one already approved by the Fund's board in September has met fierce opposition from leading Fund members, including the US and Germany. The lack of enthusiasm for the scheme is so great that officials have indicated the board may not even formally consider the proposal.

Gerard Baker, Washington

NEWS: WORLD TRADE

Concern over foreign domination as French utility plans stake in power and gas company

Sparks fly over Austrian electricity sale

By Eric Frey in Vienna and David Owen in Paris

The expected sale of a stake in an Austrian power and gas company to Electricité de France (EdF) sparked a political uproar in Austria yesterday and raised concerns that the liberalisation of Europe's energy sector would result in foreign domination of its fragmented utility industry.

The provincial government of Styria announced on Tuesday that it planned to accept EdF's bid for a 25.1 per cent stake in Estag, the local utility company. EdF offered Sch5.6bn ($450m) for the interest, about Sch1bn more than competing bids by two other consortia, which included the Austrian oil and gas group OMV and Verbund, the country's largest energy group.

The bid values Estag at Sch22.4bn. Styria will inject the receipts from the partial privatisation into Estag, which wants to acquire stakes in other Austrian energy companies. A further 25 per cent of Estag is to be sold in a public share offering in 1999 at the earliest.

The deal would represent EdF's largest foreign investment and bring to FFr4bn ($670m) the total it has invested abroad this year. Yesterday's developments came 12 months after the French company and RWE Energie, a leading German utility, paid SFr526m ($365m) for a 40 per cent stake in Motor-Columbus of Switzerland, a country occupying an important strategic location in the European electricity industry.

Other European countries where the company is present include Italy and Hungary. Earlier this year, Edmond Alphandéry, chairman, indicated the group planned to invest FFr4bn a year in foreign ventures. It has designated Europe a "priority market".

The decision by Styria's conservative government runs counter to plans by the federal government and most of the other provinces to keep ownership of the energy sector in Austrian hands.

Critics said EdF was overpaying because it wanted to use its Estag stake to gain new markets in Austria and eastern Europe for its cheap electricity generated mostly in nuclear power plants. Austria relies to a large extent on hydroelectric power, which is seen as a cleaner form, but is more expensive.

Public opinion is strongly against nuclear energy, which has been banned in Austria since a referendum in 1979. But Waltraud Klasnic, the governor of Styria, said the agreement with EdF ruled out the sale of French nuclear power to Austria. Current law says that any utility must be majority owned by the public sector.

China hails EU gesture over dumping rules

By James Harding in Shanghai

Beijing yesterday welcomed a decision by the European Commission to stop labelling China and Russia as "non-market economies" under European Union anti-dumping rules.

A Chinese government spokesman said the removal of the "non-market economy" classification, which has increasingly irked Beijing as it has introduced market reforms, would help improve Sino-EU economic and trade relations.

"China does not oppose anti-dumping measures in general, but it opposes discriminatory anti-dumping measures," he said, adding that Beijing "welcomes and praises the motion which we consider positive and wise".

The European Commission, which made the decision at a meeting on Tuesday, said the removal of the "non-market economy" label would not weaken EU resolve to fight cases of dumping, but took account of the economic transition under way in both China and Russia.

The EU will make case-by-case judgments, taking account of market conditions where they operate.

In "non-market economies", the EU says it cannot work out the normal value of a product because of the distorting effect of state control and lack of market signals. Estimates of a fair price for a product are made by comparing it with prices and costs in a comparable market economy.

Russia and China complain that this system takes no account of competitive advantages enabling them to produce some goods more cheaply.

Under the proposed new policy, the EU would use domestic data if it found that market conditions prevailed in a Russian or Chinese economic sector subject to an anti-dumping probe. Beijing said it hoped that in the future the European Commission would be able "to make an objective evaluation of China's actual economic situation and make an accurate decision".

The decision coincided with a separate demand from the Commission for a heavy anti-dumping duty to be imposed on imports of silicon metal from China into the EU. The 49 per cent duty must be approved by EU ministers.

US plans trade pact crackdown

By Nancy Dunne in Washington

The US plans to crack down on violations of the more than 200 trade agreements signed in the past five years and will mobilise new resources to open the Chinese market, according to David Aaron, US under secretary of commerce for international trade.

With the US trade deficit climbing to new heights, Mr Aaron describes himself as less concerned about imports but determined to overcome barriers blocking US exports.

"If you look at the major economies - Japan, China and some of the big emerging markets - our market share is going down," he said. "In some cases it's significant; others, marginal."

China is of particular concern. "It's clear that the Japanese and Europeans are getting through those trade barriers better than we are," he said. "We have to find out why that's so, and what we can do about it."

The Commerce Department is planning to step up contacts with China. The Joint Commission on Commerce and Trade, co-chaired by the commerce ministers, meets annually to talk about trade concerns. The two governments have decided to make the contacts an ongoing process, with officials meeting monthly.

Ensuring compliance with trade pacts has been a major US concern over the past two years. Industry complaints have formed the basis of the cases referred to the World Trade Organisation.

Mr Aaron has put compliance at the top of his agenda. He intends to intensify the effort by throwing the process open to large and small businesses rather than going to the US trade representative's office for assistance. However, trade analysts say that USTR resources have been considerably overstretched and it is constrained over how much it can take on.

The Commerce Department is phasing out its business counselling service, leaving those efforts to district offices and a Trade Information Centre in Washington. The current compliance programme will be expanded to become "a one stop shop against trade barriers."

The new initiative will be electronically based with the text of the 200 or so trade agreements accessible on line along with market access information about trade barriers and information about how to overcome them. Business complaints can be e-mailed or faxed.

"We are looking for better data and anecdotal information," said one official. The resulting actions could range from formal WTO cases to letters to high-ranking foreign officials.

Anti-bribes convention signed

By Robert Graham in Paris

Ministers of the Organisation for Economic Co-operation and Development (OECD) yesterday signed a new international convention making it an offence to corrupt officials in the pursuit of business.

The convention, agreed on November 20, was not as tough as some countries such as the US had hoped. It did not include quantifiable sanctions nor the means to enforce the accord. But it nevertheless represented the first concerted effort to curb the widespread bribery and corruption surrounding many international contracts.

As evidence of the importance attached by Washington to the convention, the ceremony was due to be attended by Madeleine Albright, US secretary of state.

At the least, the agreement will end to the practice whereby companies have been allowed a tax deduction against foreign bribes. Germany and France have allowed this until now, although earlier this month France introduced legislation to stop the practice.

All 29 members of the OECD, representing the world's main industrial nations, had pledged to sign, as well as Argentine, Brazil, Bulgaria, Chile and Slovakia. Australia for domestic procedural reasons was the sole OECD nation not signing yesterday.

The convention includes a sweeping definition of those covered by the offence by defining a "foreign public agent" as anyone who holds a "legislative, administrative or judicial post in a foreign country" as well as people with jobs in public sector companies or international organisations.

For the moment, payments to political parties are excluded and no effort has been made to cover the activities of offshore subsidiaries in the corruption process. The penal sanctions to be applied must be "effective, proportionate and dissuasive".

The convention will go to member countries' parliaments for approval before being ratified a year from now.

NEWS DIGEST

UK's £100m for the poor

UK companies will be able to insure investments in 26 of the world's poorest countries under a £100m ($160m) initiative announced yesterday.

The UK government said it would try to encourage further investments by persuading private sector insurers to offer cover to companies which built up interests in heavily indebted countries.

The £100m will fund an extension to the Overseas Investment Insurance (OII) scheme run by the Export Credits Guarantee Department (EGCD). The ECGD last year insured £160m of UK investments against war, expropriation, restrictions on remittances and other political risks.

The EGCD said it operated at no cost to the UK treasury and rarely had to pay out. In the last four years it had only had to meet two claims, which cost it a total of £300,000.

Most of the 26 countries are in Africa. They include Congo-Brazzaville, Ivory Coast, Kenya and Uganda.

"UK investors haven't approached these countries because there was no cover available," said Anthony Faulkner, manager of the OII.

Mr Faulkner said he hoped that the government's decision to put up money would give private insurers the confidence to offer cover. "We hope we will act as a catalyst for other insurers to come on board," he said.

Michael Peel, London

■ IRAQ SANCTIONS

UN to permit shipping link

Iraq said yesterday the United Nations had agreed to allow a shipping line between Iraq and the United Arab Emirates at the request of the UAE.

Since UN sanctions imposed on Iraq for its 1990 invasion of Kuwait, the only outlet for Iraqis wishing to travel abroad is the 1,000km-long desert road between Baghdad and Amman. That road also handles the bulk of Iraqi trade with the rest of the world. Civilian flights are banned.

The UAE is campaigning to reconcile Arab countries that have shunned Baghdad since 1990. Earlier this year, the UAE resumed all direct telecom links with Iraq.

Reuters, Baghdad

■ CHINA VENTURE

Krupp in $1.4bn steel deal

Krupp Thyssen and Shanghai Pudong Iron & Steel of China have set up a joint venture to construct an integrated stainless steel plant in Shanghai.

The total investment will be $1.4bn with backing from the International Finance Corporation, a unit of the World Bank, and the KfW Reconstruction Loan Corporation of Germany.

Krupp said its plans reflected the prospect of double-digit growth in the Chinese market.

Initially, the new venture will set up a cold rolled steel plant with an annual capacity of 72,000 tonnes which will become operational in the second half of 2001.

By 2006, the expanded plant will reach full capacity of 440,000 tonnes of hot and cold rolled strip and will have a workforce of 1,300.

International Staff

Mexico's legendary oil union boss freed

By Henry Tricks in Mexico City

Joaquin Hernáandez Galicia, legendary ex-leader of Mexico's oil workers' union, has been freed from jail nearly nine years after his nemesis, ex-President Carlos Salinas, sent federal troops with a bazooka to blast down the door of his coastal mansion and arrest him.

The Mexico he woke up to yesterday on parole has changed almost as much as he has, while growing frail and tending a patch of garden behind bars.

When La Quina, as the 76-year-old Mr Hernández is known, was seized on murder and stockpiling weapons charges on January 10, 1989, his downfall was hailed as a sign the preppy Mr Salinas, just two months into office, was no weakling.

As "moral leader", or strongman, of the 200,000-strong Mexican Petroleum Workers' Union, La Quina had been considered untouchable; a labour leader whose union was unabashedly corrupt, siphoning off millions of dollars as it bought and sold jobs at the oil monopoly, Petroleos Mexicanos (Pemex), and ploughing it into an empire of cattle ranches, hotels and cinemas.

The union got away with it because of its loyalty to the long-ruling Institutional Revolutionary party (PRI), for which Mr Hernández Galicia hand-picked candidates and party bosses in oil-rich eastern Mexico and regularly whispered into the ears of presidents.

But he angered Mr Salinas in 1988 by opposing his plans to open up the Pemex monopoly. Worse, he leant in favour of Mr Salinas's arch rival, Cuauhtémoc Cárdenas, son of the Mexican hero who nationalised the oil industry in 1938. Why Mr Salinas chose to play up murder and arms stockpiling charges rather than corruption as a way to get his own back is not clear. Some now believe the charges that led to La Quina's 13-year jail sentence were trumped up.

"La Quina's opposition to the opening up of the oil industry and his support for Cuauhtémoc Cárdenas made him a victim of political harassment," said Soraya Bermejo, of Amnesty International that made him an unlikely prisoner of conscience this year.

It must seem like a victory of sorts to Mr Hernández Galicia that as he walks free, Mr Salinas is living in self-imposed exile in Ireland, disgraced by the economic disaster that hit Mexico shortly after he stepped down.

The union that La Quina controlled for more than 25 years has managed to stall President Ernesto Zedillo's efforts to privatise secondary petrochemicals. But La Quina says he will dedicate the rest of his life to cultivating "maize, beans and rice," and pledges "absolutely no more politics, and still less union work."

But with Mr Zedillo anxious to get the petrochemical privatisation process back on track, the government has made it clear it will be watching La Quina's every move very closely.

Asian crisis: growth blip in California

By Christopher Parkes in Los Angeles

California will continue growing faster than the nation at least until the end of the decade, although setbacks from Asia's economic woes will not be "painless," according to economists at the University of California, Los Angeles.

Silicon Valley's high-tech base will bear the brunt of the fall-out from the crisis, but the net impact on the state's economy is likely to be a more sustainable rate of growth in jobs, incomes and consumer spending.

An expected rise in US interest rates, starting next year and running into 1999, will also help put a brake on growth.

The UCLA's Anderson business school view that the Pacific Rim will remain the mainstay of the Californian economy matched opinions from other regional institutes.

Stephen Levy of the Center for the Continuing Study of the Californian Economy, said that the likely effect on exports – a decline over 12 months of between 5 per cent and 10 per cent – represented a "minor blip" for the state's $1,000bn economy.

Esmael Adibi, director of economic research at Chapman University, suggested exports from Orange County - a leading source of medical instruments and computers - could drop 15 per cent.

Noting that almost 50 per cent of merchandise exports from the Pacific south west region of the US went to Asia, he added that the effects of the current crisis could linger into 1999.

The silver lining, he said, was a slow-down in the overall rate of US growth which might even lead to lower interest rates late next year and in 1999. "By 2000 I would expect to see fundamental [political and economic] changes which will open up Asia even more for US exports."

However, the UCLA's forecast, which included the possibility of lower rates if the external turmoil had too damaging an impact on the US, allowed for higher interest rates.

National growth would continue to be very strong in the next six months.

"The ensuing inflation pressure in the face of the tight labour market by the middle of 1998 will force the Federal Reserve to start raising the interest rate." Its analysis showed California's exports to Asia had slowed dramatically even before the financial crisis struck.

For the 12 months to the end of June, the state's shipments of electrical machinery and components had fallen more than 4 per cent, while US exports in these categories rose 14 per cent.

Total exports from California to Japan went from an annual growth rate of 25 per cent in 1995 to a decline of 9 per cent in the 12-month period ending in mid-1997.

Over the same periods, shipments to South Korea slid from annual growth of 41 per cent to a drop of 18 per cent.

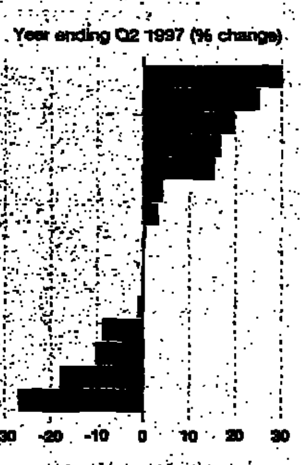
Jobs growth in the state, has yet to be affected by recent events, although a recent Chapman University report said reduced exports could costs 2,400 jobs in Orange County, where unemployment is only 3 per cent. According to UCLA, the state's non-farm employment rate improved 3.4 per cent in the third quarter of this year - the best improvement since late 1988.

In spite of tightening labour markets in Silicon Valley, the San Francisco Bay area and Orange County, wage growth has remained relatively modest.

The report suggested that this might be because large numbers of new workers were being added to payrolls at entry-level wages because of the shortage of experienced personnel.

UCLA researchers have detected some inflationary hot-spots in the region. The Bay area consumer prices index, up 3.6 per cent in the 12 months to November, has in the latest three months risen 4.8 per cent, with housing costs showing an 8 per cent surge.

California exports



	1996 value $bn	1996 % of total
Netherlands	2.43	2.3
Mexico	9.11	8.7
Hong Kong	3.62	3.5
Australia	2.10	2.0
Taiwan	5.62	5.4
UK	5.06	4.8
Canada	11.10	10.6
Germany	4.16	4.0
France	2.39	2.3
Thailand	2.26	2.2
Philippines	2.02	1.9
Japan	18.92	18.1
Singapore	5.93	5.7
South Korea	8.78	8.4
Malaysia	3.19	3.1

Source: Miser, University of Massachusetts

Latin America ending 1997 in good health

By Imogen Mark in Santiago

The economies of Latin America and the Caribbean are ending 1997 with their best results in 30 years, with growth near 5.5 per cent and 11 per cent inflation, the UN Economic Commission for Latin America and the Caribbean (ECLAC) said yesterday.

Though turbulence in Asia would almost certainly lower growth by several percentage points next year, the region as a whole was now much better equipped to deal with external shocks, said Gert Rosenthal, ECLAC's executive secretary.

"Latin America went up a steep learning curve in the 1980s; in the 1990s its policy makers have shown they can react quickly and effectively. No one was sitting around watching as the impact of the Asian situation rolled towards them," said Mr Rosenthal, presenting ECLAC's annual preliminary figures on the region's economic performance.

The most evident effect of market turbulence would be a drop in the flow of foreign capital to Latin America and deteriorating terms of trade.

This year, the region sucked in $73.5bn in foreign investment, accumulating reserves of $13bn. But unlike the early 1990s, most was in direct investment, bonds and medium-term bank loans. Foreign direct investment was an unprecedented $44bn; Brazil, Mexico, Venezuela and the Dominican Republic each attracted record sums.

The regional current account deteriorated sharply. For 1997, the deficit was $60bn, an average 3 per cent of gross domestic product, up from $35bn last year.

The main factor, the report noted, was the return to the usual pattern of trade, with imports growing faster at 18 per cent, than exports, up 11 per cent.

Export growth was well above the 7 per cent growth forecast for world trade. But Latin America's overall trade deficit soared from $8bn last year to $28bn for 1997, with "spectacular" increases in the deficits of Brazil, Mexico and Argentina.

Brazil was the only one of the three with a deficit in the current account above 4 per cent, but seven other countries, including Chile and Peru, were also running deficits in that region.

NEWS DIGEST

US sees record film receipts

US box office revenues could top $6bn this year, helped to fresh peaks by this weekend's opening of *Titanic*, the most expensive film in history.

Last year's record $5.76bn was exceeded last week-end when Walt Disney's *Scream 2* attracted hordes of young viewers, sold $39m worth of tickets in its opening three days, and took the industry's gross to more than $5.8bn. The sequel to last year's surprise hit set a new box office record for a December opening.

The imminent arrival of *MouseHunt*, a heavily promoted comedy from DreamWorks and the latest James Bond film, *Tomorrow Never Dies*, will give the market extra impetus in the closing days of the year.

Hollywoood's international markets are also performing strongly. Both Sony Pictures and Buena Vista International, the Walt Disney distributor, have recently reported record sales of more than $1bn. *Titanic*, a joint effort by 20th Century Fox and Paramount which cost more than $200m to make, has had mixed reviews, but public interest has been stirred by extensive reporting of its production travails, and a prolonged marketing campaign. *Christopher Parkes, Los Angeles*

■ BRAZILIAN PUBLIC SECTOR DEFICIT

Cardoso acts to speed bills

The Brazilian Congress will meet for a special session during the January recess to examine vital bills aimed at reducing the heavy public-sector deficit.

The reforms are widely regarded as crucial in reducing the vulnerability of the Brazilian economy to renewed financial market volatility.

Fernando Henrique Cardoso, Brazil's president, keen to push on with the reforms which have been stalled in Congress, called for the extraordinary session from January 6 to February 13.

Congress is also to examine a controversial proposal to hold a constituent assembly in 1999, when changes to the constitution could be approved by a simple majority, rather than the three-fifths majority normally required.

The proposal follows the continued delay in Congress of the government's plans to reform pensions and the civil service, the centrepieces of its strategy to reduce a budget deficit equal to nearly 5 per cent of gross domestic product. *Geoff Dyer, São Paulo*

■ VENEZUELA

Agreement to reform health

A three-way commission between trade union, employer and government representatives late on Tuesday reached an agreement in principle to reform the Venezuela's health sector and pave the way for private healthcare funds.

"It is a very important step," said Francisco Natera, head of the influential industry and commerce federation, Fedecamaras. "It is the area where we had most discrepancies with the workers and the government."

The political accord allows workers to choose between public and private healthcare funds rather than contributing mandatorily to the inefficient public social security institute IVSS. Healthcare is notoriously poor in Venezuela's public hospitals, which lack resources. *Raymond Colitt, Caracas*

IMF shadow over South Korean poll

By John Burton in Seoul

South Korea today will select a new president in an election closely watched by overseas markets to determine Seoul's commitment to economic reform under the International Monetary Fund's $57bn rescue package.

Kim Dae-jung, the veteran centre-left opposition leader, has maintained a narrow lead over Lee Hoi-chang, the centre-right government candidate, throughout the campaign for the single-term, five-year presidency.

Mr Kim has criticised the IMF deal, though he recently promised to support the agreement after being blamed for contributing to recent financial turmoil by some of his remarks. Mr Lee, a former supreme court judge and prime minister, has backed the IMF rescue.

The outcome will rest on undecided voters, who comprise up to 15 per cent of the electorate. Analysts said undecided voters have traditionally opted for the governing party once they enter the election booth.

Mr Kim enjoyed a recent bounce in support due to his criticism of the IMF, but "public anger has died down and Koreans are beginning to take a cool look at their economic problems.

"They are likely to vote for stability with Lee rather than change with Kim," said one western diplomat. But several factors could benefit Mr Kim, who if elected, would be the first opposition figure elected president in South Korea's 50-year history.

A low turnout would help Mr Kim since his supporters are considered more loyal than government supporters. Analysts predict a victory for Mr Kim if the turnout falls below 80 per cent, which is believed likely.

The majority centre-right vote that would normally ensure the election for Mr Lee is being split, with the independent candidacy of Rhee In-je, a former member of the government party. If support for Mr Rhee stays above its present 20 per cent, this could spell trouble for Mr Lee.

Korean financial markets yesterday appeared calm, as worries about possible loan defaults on the nation's short-term foreign debt receded.

The IMF is scheduled to meet today to review Korea's progress in implementing its rescue programme before releasing another $3.5bn in bail-out loans. IMF officials have indicated the Fund would approve release of the second tranche.

US officials have said they would not oppose bridging loans by other countries to prevent Korea defaulting on short-term foreign loans due by the end of the month.

Hashimoto's conversion came at summit

By Michiyo Nakamoto in Tokyo

Ryutaro Hashimoto, Japan's prime minister, finally experienced his conversion to a new economic approach in Kuala Lumpur.

After insisting he would not introduce tax cuts, it was at this week's summit with other Asian leaders that he was convinced of the need to drift from the path of "fiscal rectitude".

"In Kuala Lumpur, I made the decision after thinking it over and over again. This is what our country must do... to prevent a world recession touched off by Japan," he said.

Asian leaders impressed on him the gravity of the crisis facing their economies. A recession in Japan could tip Asia into depression, they said.

Pressure from the US, too, was a factor. President Bill Clinton phoned Mr Hashimoto after the announcement and told him the US was encouraged by Japan's move. The White House said the tax-cutting proposals were a recognition by Tokyo of the importance of demand-led growth.

The markets' negative reaction to Tuesday's corporate tax cuts may finally have tipped the balance.

But the most important cause of Mr Hashimoto's conversion was probably old-fashioned backroom politicking. His decision to abandon his fiscal reform beliefs was as much a response to the internal politics of his Liberal Democratic party (LDP) as the deteriorating economic situation, analysts say. "It's not about the economy, it's a family feud," said Keith Henry, political analyst at the Massachusetts Institute of Technology's Japan office.

With little personal support within the LDP, Mr Hashimoto has had to rely on public opinion and the balancing of two opposing forces to maintain his authority in the party.

On the one side is a group of mostly younger politicians led by Koichi Kato, LDP secretary-general, which has insisted on implementing fiscal reform. Opposing this are older, more conservative politicians, represented by Seiroku Kajiyama, Mr Hashimoto's former chief cabinet secretary.

The precarious power balance on which Mr Hashimoto's authority rests had been tipped in favour of Mr Kato's fiscal rectitude camp. Mr Kato's allies emerged in control of key cabinet posts after Mr Hashimoto's controversial appointment – and then the resignation – of a minister who had been convicted of bribery.

But Mr Hashimoto's decision to adopt Mr Kajiyama's idea of issuing Y10,000bn ($77bn) worth of bonds, aimed at restoring financial stability, and the latest announcement of an income tax cut, represent a concession to conservative forces which had been pressing for funds to boost the economy. "He gave too much to the [Kato camp] and now it's the revenge" of the conservatives, notes Dan Harada, a political analyst.

Mr Hashimoto's latest manoeuvre represents a damaging policy reversal when his credibility has already been shattered by a climb-down on administrative reform and the government's lack of bold measures to address economic woes.

The biggest danger for him now is if the conservative camp is able to ride on the momentum of its victory to tip the balance more decisively in its favour.

If that happens, Japan's programme of structural reforms, including Big Bang, could be derailed.

The backroom-politicking that has come to rule policy was of little significance to the international community while its impact was confined to domestic issues, says Mr Henry. But as the government has come under growing pressure to take bold economic action, the LDP's internal politics is beginning to have more international implications.

Package will give prod to sluggish economy

By Paul Abrahams and Gillian Tett in Tokyo

There was no doubt that yesterday morning's announcement of income tax cuts by Ryutaro Hashimoto, prime minister, caught everyone on the hop. His repeated assurances that such reductions would not be countenanced had been considered as gospel.

The ministry of finance's budget bureau found out about the reductions only as Mr Hashimoto was about to announce them at 10.30am.

As for the markets, the Nikkei 225 index, which had fallen as low as 15,795 before the announcement, immediately shot up more than 1,000 points. It later closed up 3.5 per cent on the day at 16,541.

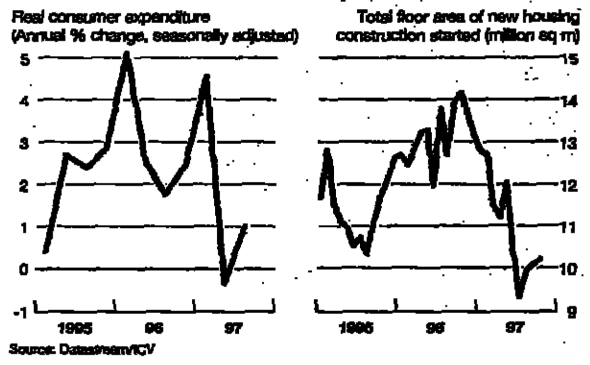
The yen, which during November had fallen more than 10 per cent against the US dollar, gained 4.4 per cent at one point before closing at Y127, a rise of 3.4 per cent

But how much difference will the income tax cuts and the other measures actually make?

The government aims to boost economic growth through Y2,000bn ($15.5bn) of income tax cuts, Y840bn in corporate tax cuts, and Y2,000bn in accelerated or new public spending. Eisuke Sakakibara, vice-minister of finance for international affairs, said this could add 1 percentage point to growth in gross domestic product.

Moreover, the government has announced measures to support the troubled financial system with a Y10,000bn package. It has also moved to prevent the banks' difficulties adversely affecting the rest of the economy.

Japan: sluggish



Source: Datastream/ICV

Small and medium-sized businesses, faced by a lending squeeze from the banks, could get Y23,000bn through the government's lending programme this financial year and in 1998.

One diplomat commented this was effectively the nationalisation of the credit industry for small and medium-sized companies.

There is little doubt the moves will underpin stocks, at least in the short term.

Yesterday's sharp rise in the yen – assisted by the Bank of Japan's unusual selling of dollars – should remove some doubts among international investors who have been pummelled by the combination of a tumbling equities market and collapsing currency.

The yen's recovery is probably unsustainable. It would be dangerous for the government to let the yen rise too much, warns Kazuhiko Ogata, economist at Jardine Fleming in Tokyo. Japanese exporters are already losing competitiveness against Asian rivals. A significant appreciation would also hit the value of overseas bonds held by troubled life assurance companies.

The impact of the measures on Japan's sluggish economic growth will be limited. The increase in sales tax last April withdrew Y5,500bn from the economy says Mr Ogata. The abolition of tax rebates took another Y2,000bn. Yesterday's decision to cut taxes by Y2,000bn will have a marginal impact, he claims.

The main problem is estimating how much Japanese consumers – who should be better off by about Y38,000 each – will spend and how much they will save.

"The bulk will be saved – that's the price you pay when you have tax cuts in an environment where there is no consumer confidence," said Cameron Umetsu, economist at UBS in Tokyo.

"The cuts should add about 0.2 per cent to GDP growth – and frankly that's a rounding error," he complains.

The important factor is the tax reductions show the government has recognised the economy is in trouble, he says.

Taiwan questions HK media tycoon

By Laura Tyson in Taipei and Louise Lucas in Hong Kong

Taiwanese authorities have detained a Hong Kong property and media tycoon and close adviser to Beijing in connection with a land rezoning scandal that broke last month.

Investigators took Lim Por-yen, 83-year-old chairman of Hong Kong-based Asia Television and Lai Sun Development, and two secretaries in for questioning on Tuesday night at Chiang Kai-shek International Airport as he prepared to board an airliner bound for Hong Kong. He was still being held for questioning yesterday.

"We have detained Mr Lim on suspicion of bribery," said the Taipei district prosecutor, Hsueh Wei-ping. "We are currently questioning him." Mr Lim was in Taipei for the Golden Horse Film Festival awards ceremony.

News footage showed the prominent businessman and political adviser to China on Hong Kong's July handover from British to Chinese control being led away with his hands covering his face. He was being held incommunicado.

Mr Lim's sphere of influence, like many Hong Kong tycoons, spans commerce and politics. He has led the Lai Sun group of companies since 1947, and was a member of the 400-strong Beijing-appointed committee which selected Hong Kong's first leader under Chinese rule, as well as the interim legislature.

He was also a member of the caucus that picked 36 Hong Kong representatives to China's national parliament earlier this month. He has business interests in Taiwan as well as China and Hong Kong.

Yesterday the property, garments and hotels companies within the Lai Sun group, including Asia Television, the smaller of Hong Kong's two terrestrial stations, issued a joint statement distancing the companies from what they referred to as "Mr Lim's private business in Taiwan". The Lai Sun companies themselves do not have any businesses or operations in Taiwan.

The Taipei district prosecutor's office is investigating suspicions that Mr Lim may have colluded with Chuang Yu-kun, former director of Taipei county's land administration office, to profit from real estate speculation.

Mr Chuang has been under arrest since last month in connection with related land transactions.

Suharto faces ripples of doubt

By Sander Thoenes in Jakarta

The prospect of a sixth smooth re-election of President Suharto next year was put in doubt this week, when a leading party failed to nominate him and a group of retired generals called for a new president.

The United Development party (PPP), one of only three parties represented in parliament, failed to endorse any presidential candidate after three days of debate.

For the past two decades, the Moslem PPP has played its part in a nationwide clamour to nominate Mr Suharto for every election. But newspapers said several branches of the party preferred to nominate Ismail Hasan Metareum, the party chairman, or Amien Rais, an outspoken Moslem leader.

Mr Ismail denied reports that his party's failure to endorse Mr Suharto was linked to persistent rumours about the president's health.

Mr Suharto, 76, has been resting for 12 days but said he would attend a military graduation today. His pledge helped bring back the rupiah and stock market from record lows yesterday.

On Tuesday, a well known group of retired generals and officials cited the economic crisis as grounds for urging the MPR, a hand-picked assembly that will meet in March, not to re-elect Mr Suharto and to abide by Indonesia's first constitution, which limits a president to two terms.

"If this is done, the road to political reform and democratisation on the basis of popular sovereignty can begin in a peaceful and constitutional way," said the group, which calls itself the Petition of Fifty.

Only students and fringe groups have so far dared call for the retirement of Mr Suharto. "Unlike just a few months ago, the continuance of this presidency is now in doubt," a western diplomat concluded.

Ali Sadikin, former governor of the Jakarta region and leader of the Petition of Fifty, denied harbouring ambitions for the presidency and said he favoured Amien Rais or Megawati Sukarnoputri, daughter of the late President Sukarno.

The Petition of Fifty provoked Mr Suharto's anger in 1979 and 1980 with appeals for political reform and redefinition of the military's role in government. General Edi Sudradjat, minister of defence and security, said yesterday rumours of a coup were unfounded.

Asia crisis may 'worsen' soon

By Peter Montagnon, Asia Editor, in London

Asia's economic crisis could reach a critical stage in the first quarter of next year, with large corporate debt defaults leading to the declaration of more general moratoria and the imposition of capital controls, according to a leading regional equity broker.

The region is in a downward spiral which could wreak "profound economic damage," said Neil Saker, SocGen-Crosby's regional economist, in a note to clients.

Mr Saker is markedly more pessimistic than other regional brokers, but the former Bank of England official was one of the earliest to predict the difficulties that led to Thailand's devaluation in July and sparked the regional crisis.

At particular risk now is Indonesia where the political and corporate situation is especially delicate. Some $10bn short-term debt is due by the end of January and the rupiah has been falling because of capital flight, Mr Saker said yesterday.

Also at risk of sparking defaults and moratoria is South Korea, which faces a policy vacuum ahead of the political transition to a new president. Across Asia, devaluations have impaired companies' ability to pay their debts. This in turn has weakened the banking system and provoked capital flight, depressing exchange rates further.

As a result of this vicious circle, good companies are facing bankruptcy, output losses will be "tremendous" and the social fabric of Asian societies will come under pressure as unemployment rises.

"A disturbing element of this crisis is that International Monetary Fund stabilisation programmes have not worked so far," Mr Saker said. The rescue packages for Thailand, Indonesia and Korea were among the largest in the IMF's history, but they had failed to revive confidence.

"In fact, the situation has deteriorated markedly as it is realised the IMF remedies are highly deflationary and are not appropriate for a private sector debt crisis."

Move may ease pressure to set up statutory corporate governance body

Stock exchange to run new code

By Jane Martinson, Investment Correspondent

The London Stock Exchange is to take charge of the "supercode" on corporate governance being drawn up by the Hampel committee and to place it alongside exchange listing rules.

The plan is designed to lend greater authority to the code, an amalgamation of the Cadbury and Greenbury reports on corporate governance as well as that of Sir Ronald Hampel's team.

Proponents of the scheme believe supervision by the exchange will reduce pressure on the government to establish a statutory body to deal with corporate governance.

While the "supercode" is to be drawn up by the Hampel committee, the exchange will put it out to consultation and then take charge of making the necessary changes to the listing rules.

The process is likely to result in a new clause in the rulebook asking companies to outline how they comply with the principles expressed in the supercode in their annual reports and to justify any failures. This recommendation would supersede the current requirement that companies indicate whether they comply with the Cadbury code on corporate governance.

The change goes to the heart of what the Hampel committee feels is lacking in the current "box-ticking" approach to corporate governance: it is designed to prompt fuller disclosure.

The consultation exercise will focus on the clarity of the report rather than matters of substance. The exchange expects Sir Ronald to reconvene his committee if the consultation raises "issues of principle".

Although the code will be included within the exchange's Yellow Book, it is expected to be monitored on a "care and maintenance" basis, which will be less intensive than for some other listing rules. Not all elements of the code will be compulsory.

Peter Butler, corporate focus director of Hermes, the pension fund manager, welcomed the move by the stock exchange. "This is much better than a code of principles, which people ignore, or legislation, which would be a disaster," he said.

The Hampel committee is expected to publish its own report in the third week of January. The committee is finalising details of this report, which is expected to provide further elaboration on key issues rather than recommend fundamental changes.

This could disappoint opponents who called for a range of changes. These included the recommendation from the National Association of Pension Funds for a separate vote on executive pay and unease among several responses about the role of a lead non-executive director.

The exchange has said that it will work with "other relevant bodies" if future corporate governance issues arise.

BA beats Virgin to last non-stop US route

By Arkady Ostrovsky in London

British Airways yesterday scored an important victory in its battle with Richard Branson's Virgin Atlantic airline over the last non-stop route between Britain and the US available under a bilateral treaty.

The UK Civil Aviation Authority favoured BA's bid for a direct daily flight from Gatwick, London, to Denver, Colorado, over Virgin's offer to fly from Gatwick to Las Vegas twice a week. The decision is a blow for Richard Branson's airline which has a long history of rivalry with BA.

Bob Ayling, chief executive of BA, welcomed the decision. "This is a great result, with our strong case recognised by the CAA." Mr Branson, chairman of Virgin Atlantic, said the decision was a "slap in the face for the smaller airlines and a further unwanted boost to the monopolists at BA".

A flight from London to Denver was the last direct transatlantic route available under a strict UK-US aviation treaty, which limits the number of "gateways" into the US. Denver will be BA's 23rd US destination while Virgin Atlantic has only eight. Virgin also accused BA of putting in a "spoiling" application.

British Airways said Denver was a popular destination and that even without a direct route, 50 per cent more passengers flew to Denver than to Las Vegas. CAA said its decision was based on "which of the two services was likely to produce the greater benefits for users of air services".

But Virgin insisted that Las Vegas was an equally important business and leisure centre. It said the decision by CAA was particularly unfair, since the spare destination was created by Virgin's decision to put its London-Newark service under a general London-New York umbrella.

Alitalia picks KLM, Page 18

US city networks buy ITN breakfast news show

By John Gapper, Media Editor

Independent Television News is to launch a breakfast news television service in the US as part of its push into providing news on American public television.

The ITN breakfast news programme for the US, to be hosted by Arthur Kent, has been commissioned by a group of networks in Detroit, Seattle, Houston and St Louis. It will cost \$8m a year to produce and market.

Steve Antoniotti, president of WTVS-TV in Detroit, which originally approached ITN, said he had been seeking a "global perspective" lacking on US networks.

ITN is the biggest provider of national news bulletins for the commercial terrestrial network in the UK. It already produces a nightly half-hour programme for US public service channels using material from News at Ten and Channel Four News in the UK. It will make a one-hour morning show to be shown on stations in US cities.

The move comes as the BBC, the UK's national public service broadcaster, is trying to sell news and other programmes in the US. It is negotiating with Discovery Channel to create international channels based on BBC programmes.

ITN is working on proposals to retain its £16m-a-year contract with Channel Four, and gets £45m a year to make News at Ten. It has recently gained majority control of the Euronews service based in Lyons, France.

Richard Tait, editor-in-chief of ITN, said the move showed it was possible for UK news broadcasters to take advantage of the demand for international news by creating new outlets for their services.

"It shows that we can expand internationally without being subsidised by the licence fee payer or anyone else," said Mr Tait. The BBC is producing a 24-hour news service, funded by the licence fee, to appear primarily in the UK.

● Don Cruickshank, the UK telecommunications watchdog, yesterday reiterated a call for BSkyB to be obliged to sell its premium film and sports channels on fair terms to all broadcasters wishing to buy them. BSkyB is the satellite television network in which Rupert Murdoch's media conglomerate is the biggest shareholder.

Government report clashes with insurance industry stance

Delay urged for genetic tests

By Clive Cookson, and Christopher Adams

Government-appointed advisers yesterday demanded a delay of at least two years on the use of genetic test results by the insurance industry.

Their report clashes with the stance adopted by insurers in a code of practice also published yesterday. The conflict raises the possibility the industry could face legislation to prevent it using test results if it does not agree to a temporary ban.

The Human Genetics Advisory Commission, set up a year ago to "take a broad view of developments in human genetics", said insurance companies should not request genetic test results from clients seeking life, health or other insurance products.

Although the commission is not a statutory authority, observers would be surprised if ministers did not accept its recommendations.

Explaining the proposed moratorium, Sir Colin Campbell, the commission's chairman, said: "Genetic testing is in its infancy, and we have no body of evidence rigorous or robust enough on which to base important conclusions about when someone might die.

"It is far too early to be able to reach any conclusions about how genetic testing can be used to predict life expectancy or the onset of ill health." The medical profession and consumer groups welcomed the commission's recommendations, saying the insurance industry's potential use of genetic test results might discourage people from taking the tests and hold up scientific progress.

The Association of British Insurers, however, said it would seek to change the commission's mind and obtain exemptions for eight genetic tests, the results of which it believed were crucial for making underwriting decisions.

Insurers have for some time used the results of genetic tests if they are available, but do not require prospective buyers to take them. They argue that not doing so would leave the companies vulnerable to "adverse selection" – where people whose test results show they are likely to die early obtain cover at standard rates.

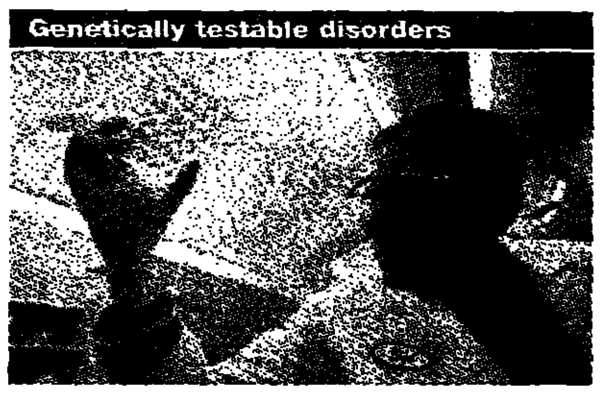
The association's code of practice recommends that insurers consult medical practitioners for advice after receiving genetic test results. It also says they should not offer lower than normal premium rates to people whose results were negative, a policy which in theory should prevent companies from "cherrypicking" the best risks.

For people unhappy with the response of an insurer, the industry plans an independent appeals panel funded by the companies.

Although the commission's proposed moratorium would be reviewed in two years, Sir Colin said: "We think that if there are arguments to lift any part of it, the onus of proof should lie with the industry."

Sir Colin, who is also vice-chancellor of Nottingham University, said the insurance industry should become involved in discussions about how to monitor genetic testing and in research about how to translate test results into practical guidance for people.

Genetically testable disorders



Disorder	Usual age of onset	Incidence by age of 50
Huntington's disease	35-50	50%
Polyposis	20+	98%
Myotonic dystophy	30+	80%+
Alzheimer's disease	55+	<25%
Endocrine disorders	wide range	c55%
Hereditary motor and sensory neuropathy	teens+	98%
Adult polycystic kidney disease	late 20's	97%
Hereditary breast cancer	35+	48%

Source: Association of British Insurers

Safety premium, Page 11

MP rejects election fraud allegations

By John Kampfner, Chief Political Correspondent

Mohammed Sarwar, the only Moslem member of the House of Commons, said last night he had no intention of resigning his seat after appearing before a court on charges linked to alleged election fraud. Pakistan-born Mr Sarwar is Labour MP for the Govan district of Glasgow, Scotland's largest city.

"I am naturally disappointed that charges have been brought against me," Mr Sarwar said. "I reaffirm that I have done nothing wrong and I maintain that I am innocent of all charges." The hearing at the Glasgow sheriffs court provided a fresh embarrassment for Tony Blair, the prime minister, who had promised to impose greater discipline on MPs' financial affairs.

Mr Sarwar, an entrepreneur who became Britain's first Moslem MP at the general election in May, said he was aware that there have been "calls in some quarters". But he added: "Since I have done nothing wrong it would be entirely inappropriate for me to resign and I have no intention of doing so."

Labour's internal disciplinary committee decided within weeks of the allegations surfacing in May to suspend Mr Sarwar's membership of the parliamentary party. That action took place separately to a police inquiry.

Mr Sarwar's fortune is derived from a cash-and-carry business in which he still plays an active part. A petition warrant was issued on Tuesday by the Glasgow sheriffs court for the arrest of Mr Sarwar, whose election victory came after a bitter tussle with rival contenders for the Govan candidacy in the local Labour party.

The warrant said the charges related to the alleged late registration of voters, attempting to pervert the course of justice and contravention of the Representation of the People Act in connection with election expenses.

Mr Sarwar has been prevented from representing the party at any function, although he was preparing to make his maiden speech in the Commons on Friday.

● Tony Blair will today face criticism from senior trade union leaders concerned at the broad thrust of government policy, especially at planned cuts in the social security budget.

At a meeting in Downing Street the Trades Union Congress will attack last week's cut in the single parent premium and oppose any future move to cut disability benefit.

Editorial comment, Page 11

Engineering sector 'ill-prepared for Emu'

By Stefan Wagstyl, Industrial Editor

Only 15 per cent of UK engineering companies have made plans for the introduction of European monetary union within a year, a survey by Lloyds Bank and the Engineering Employers Federation said yesterday.

However, a further 28 per cent to 36 per cent have reviewed their needs in key areas, including finance, business strategy and information technology, giving hope that they might be ready for the launch of the single European currency in January 1999, says the survey.

The survey showed a clear increase in support for British entry, with just 4 per cent rejecting entry under any circumstances compared with nearly 20 per cent in a similar poll last year. A majority – 58 per cent – favoured entry "when economic conditions were appropriate" and 33 per cent sought entry "soon after 2002".

Only 20 per cent of EEF members polled in the survey have made an individual manager responsible for Emu preparations. Some 11 per cent said Emu would have a limited effect on their business and a further 66 per cent said either that Emu was "important but [there were] other immediate concerns" or that there were "too many unknowns to devote resources" to Emu. Only 4 per cent said it was their most important issue and another 15 per cent said it was one of the company's "main challenges".

Graham Mackenzie, EEF director general, said: "The level of preparation is not fantastic, but we have no evidence that it's any better or worse than the rest of British industry." It was now important for companies to step up preparations in finance, IT, and business strategy. Companies had to work out the impact on pricing of a single currency which would reveal cross-border price differences.

Michael Riding, managing director of Lloyds Bank's commercial service, said: "The engineering sector underpins UK industry. If it is not ready for Emu, it will have repercussions throughout the economy."

UK NEWS DIGEST

Top pay slows in N Ireland

Average annual salary increases for executives of the biggest Northern Ireland companies fell slightly in the 12 months to September to 3.6 per cent from 3.8 per cent in the comparable months a year earlier, says a survey from Coopers & Lybrand, the accountancy firm. While company profits were up on 1996, the growth in remuneration of the highest paid directors did not keep pace.

The report says that, although pre-tax profits of the best performing companies rose 30.4 per cent, overall profits were down 4.1 per cent compared with an increase of 23.8 per cent in 1996. The report based on 62 of the top 100 companies suggests 8 out of 10 senior managers worked up to 20 per cent more than their contracts required.

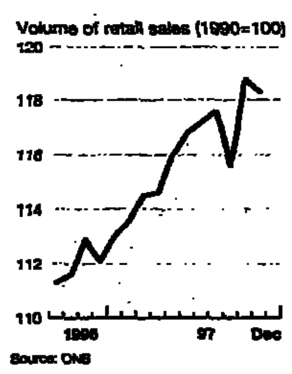
Mr Stephen Kingon, partner with Coopers & Lybrand, said: "The survey demonstrates that, although profit performance has been mixed, increased links between remuneration and company performance are delivering salary increases directly in line with business performance." *John Murray Brown, Dublin*

■ RETAIL SIGNALS

Figures fuel downturn worries

UK retail sales

Volume of retail sales (1990=100)



Source: ONS

A quieter period for retailers last month added to speculation that activity in the UK economy is starting to slow. The latest labour market data – also published yesterday – showed few signs that average earnings are rising, in spite of another fall in the headline unemployment total to its lowest level since 1980 and reports of labour shortages. The volume of retail sales fell 0.4 per cent in November compared with October, according to seasonally-adjusted figures from the Office for National Statistics. Annual sales growth also fell, to 4.8 per cent last month compared with 6.4 per cent in October. Retail volumes grew by just 0.2 per cent in the three months between September and November compared with the previous three months, the lowest three-monthly increase since October 1995. *Richard Adams, London*

■ FISHING INDUSTRY

New attempt to protect stocks

The government is making a new attempt to introduce "days at sea" limitations on the fishing industry to protect fish stocks.

Elliot Morley, fisheries minister, said that producer organisations would be asked to manage their members' activity to reduce the "fishing effort". If the industry failed to reach targets voluntarily, then the government would close areas to fishing vessels.

Mr Morley said there would also be increased enforcement of fish quotas to stop the "blackfish" market, where fish caught over agreed quotas were landed illegally.

Larger vessels would be required to instal satellite transponders by June next year so that their movements and fishing activity could be monitored from a room in the agriculture ministry's new offices in Smith Square, Westminster.

Mr Morley's remarks were made ahead of today's meeting of the EU fisheries ministers in Brussels which will discuss annual fish quotas. *Maggie Urry, London*

■ TRADE UNIONS

Expulsion threat over 'poaching'

The United Road Transport union faces expulsion from the Trades Union Congress for recruiting truck fleet drivers belonging to another union who are employed by Ford at its Dagenham plant in east London.

The TUC general council agreed unanimously yesterday to suspend the small union from the end of next month unless it complies with TUC rules. The TUC said the union had "knowingly and actively" recruited fleet drivers who had been members of the much larger Transport and General Workers' Union.

The move followed allegations from seven ethnic minority members of the TGWU who claimed they had suffered racial discrimination from not being recruited to employment in the truck fleet. They then switched to the United Road Transport Union. While the TUC disputes committee acknowledged that the union did not initiate the decision by the drivers to leave the TGWU they did give "indirect" encouragement to them joining URTU.

Ford refuses to recognise URTU for collective bargaining purposes. *Robert Taylor, London*

■ TAXATION

Business mileage change urged

The UK's 3m company car drivers drive up to 8.2bn unnecessary "business" miles a year to qualify for tax breaks under existing company car taxation rules according to research undertaken for Arriva, formerly the Cowie transport group.

The government could virtually eliminate this abuse if it were to change the tax rules to provide six business mileage bands, instead of the current two, a report published by the group argues. Under the current system the tax liability of a company car driver falls by 35 per cent above 2,500 business miles a year and a further 35 per cent over 18,000.

Arriva's monitoring of 5,000 users found that business mileage averaged 1,081 in the first 10 months of the fiscal year, then leapt to an average of 2,738 during February and March. *John Griffiths, London*

Private financing of public projects \$380m flagship for state health service ■ Monopolies body accepts rail franchise acquisitions

Hospital deal about to be signed

Simon Buckby, Social Affairs Correspondent

After two years of hard bargaining, the contract to build a £230m (\$380m) hospital for the state health service near the eastern England city of Norwich under private finance initiative rules should be signed soon. The PFI is intended to attract private funding to public projects.

The hospital is the most significant PFI hospital of the 14 on the priority list for the first wave identified by Alan Milburn, health minister, in the summer. When the second wave is announced, probably in the first quarter of next year, both government and the private partners will want to apply the lessons of the past two years to change the rules.

"I expect the next wave to be tackled on an entirely different basis," said one negotiator, still finalising the details of the Norwich deal but already looking ahead to another project in Greenwich in south-east London.

Although each PFI project has its own character, it is possible to draw general conclusions. One problem has related to the risk of increased costs caused by future changes in the law, for instance, tightened building regulations, over the 30-60 years that the private consortia lease the new hospitals to trusts in the state service. These costs would usually be reclaimed from insurance or passed on to the purchaser. For PFI projects, insurance is not available and the purchaser is in effect the government.

In the Dartford and Gravesham hospital deal to the east of London, a cap was put on the total exposure borne by the Tarmac-led consortium. Negotiators for the Norwich contract have won even greater concessions.

Innisfree, Charterhouse Bank, 3i and BZW's equity funding teams, all of which are involved in PFI projects, have persuaded Adrian Montague, head of the Treasury's new PFI taskforce, that as the government is both purchaser and responsible for changes in law, it should bear the whole risk.

This follows the principle that risk should be shouldered by those best placed to manage it. The private sector argues that their expertise is to price and manage commercial costs, while the government is uniquely placed to deal with the statutory risks.

Some in the consortia dealing with Norwich admit there has been "massive distrust" on both sides: "They think we're trying to rip them off all the time. When we ask for something, they think they're going to lose out. What they must understand is that we're trying to develop a long term successful business."

Competition signal for transport

By Charles Batchelor, Transport Correspondent

The competition authorities' decision to allow National Express to keep its privatised Central Trains and ScotRail franchises represents a victory for the company and an important indicator for the future of transport policy.

The coach, rail and airports group must dispose of Citylink, its small but profitable Scottish coach business, but it has kept control of the most extensive rail network to emerge from privatisation of the national network.

The implications of Tuesday's rulings for transport policy appear to be that diversified transport operators will be allowed to develop their businesses without excessive intervention from the authorities.

This will be welcomed by the transport sector. Plans for increased regulation of the railways through a strategic rail authority and the prospect of tighter controls of the bus industry had raised fears of increasing government interference.

For National Express, which owns five of the 25 rail franchises, the ruling removes the last obstacle to developing its rail business. Both franchises will remain heavily dependent on subsidy throughout their seven-year lives, though the amounts will decline.

They offer fewer opportunities for attracting high-paying business travellers than the group's other franchises but the high level of subsidy provides a solid financial underpinning. The others are Midland Mainline, Silverlink and Gatwick Express, which operates between London Victoria and Gatwick Airport.

The five franchises generated only £1.1m (\$1.8m) of operating profit in the first six months of 1997 – about the same as Citylink makes in a full year – but this was after restructuring costs. However, the potential for cost savings and for attracting additional passengers to rail is considerable.

Analysts said the sale of Citylink, bought for £5m in 1993, was too small a deal to affect their forecasts for the National Express group of £81m full year pre-tax profits.

In its ruling on Tuesday, the MMC said coach fares could have been expected to rise if National Express owned both trains and coaches in Scotland.

Margaret Beckett, chief industry minister, said she had considered "behavioural remedies".

However, she added, "No set of undertakings can hope to reproduce the benefits of the vigorous competition [the MMC] would expect to develop if ScotRail and Citylink were in separate ownership."

TECHNOLOGY

Wood may soon be replaced as the preferred material for making pallets, writes **Peter Marsh**

Plastic surgery for pallets

In an industrial yard near Barcelona screened off from prying eyes, a scene is being played out worthy of Monty Python. A lift-truck driver trundles around with a series of pallets, raises them to full height, and drops them to see what happens next.

Amid the bangs and crashes, something serious is takin place. The yard is a testing station run by Chep, a joint venture between GKN, the UK engineering company, and Brambles, an Australian industrial group which runs the world's biggest pool of pallets for shared use by industrial clients.

The pallets being given the rough handling in Spain are among the world's first plastic pallets that have been engineered to withstand the same kind of pressures as conventional wooden ones.

Pallets, mainly made from wood, are everyday sights in factories and distribution yards in the developed world. They carry anything from cornflake cartons to hub caps. In western Europe and north America, pallets are estimated to outnumber people by two to one.

If Chep or any other company could come up with a plastic pallet capable of replacing its wooden counterpart, the advantages could be significant.

The plastic variety would be more durable, reducing the large numbers of pallets that have to be thrown away or burnt because of damage.

They could more easily be made to exact dimensions, fitting into automated storage systems.

A plastic pallet also promises to be 10 per cent lighter than a wooden one, an important consideration affecting fuel consumption.

All three elements could help to cut expenses for the thousands of companies in 24 countries that use Chep's "fleet" of 70m pallets, mainly for the distribution of groceries and other consumer goods.

But before the world of pallets follows other commonplace products that have switched from wood to plastic, a number of technical hurdles have to be overcome.

This explains Chep's testing programme at its Spanish station, and at another test rig in the US run by Virginia Polytechnic Institute.

A team of four companies – including the UK's Cookson, General Electric of the US, plus two German and Japanese plastics suppliers – has been assembled by Chep to come up with ideas for the new pallets.

While researchers have considered high-strength acrylonitrile butadiene styrene (ABS) and polycarbonate for the plastic pallets, the betting is that specially toughened versions of high-density polyethylene, a cheaper material, will be used in the final versions.

Cost is important. In a pallet pool, wooden pallets work out at about £10 each. A plastic pallet will be more expensive, which will not matter too much if it lasts three or four times longer. But while the pallet industry would probably pay £30 for a plastic pallet, anything much higher would probably not be economic.

While Chep's research teams have used the latest three-dimensional computer software to design the plastic pallets to increase their structural strength without adding too much weight, they also have to consider friction. Because grains of wood provide a natural frictional grip, wooden pallets do not slide very much.

To avoid the safety risks of the more slippery plastic pallets sliding off lift trucks or conveyors, Chep's pallet engineers may have to add rubber pads to their designs – extras that could push up costs.

Researchers are also having to ensure there are no small holes in the final design of a plastic pallet, as they might trap water and so provide a source of contamination when transporting food.

By contrast, wooden pallets contain natural chemicals secreted by the wood that "self clean" by destroying some potentially harmful organisms.

Rubbing along thanks to slippery particles

Mark Ward reports on the discovery of tungsten disulphide as a superlubricant

There are lubricants and then there are superlubricants. A chance discovery has revealed that tungsten disulphide particles have all the properties of a superlubricant.

Earlier this year, Professor Reshef Tenne and his colleagues at Israel's Weizmann Institute were using a scanning tunnelling microscope to screen materials they thought might make good thin film photovoltaic cells, which are used in solar energy systems.

Prof Tenne says one material – tungsten disulphide – was difficult to image because every time the tip of the microscope got close to it, all the molecules skidded away.

He says this raised his suspicions and started him wondering what other properties tungsten disulphide might possess. Now a battery of tests has revealed that a layer of tungsten disulphide molecules can reduce the shearing forces between surfaces by between 50 and 700 per cent.

The process of making the slippery particles begins with tungsten oxide – a substance often combined with plastic and used as a protective, abrasion-resistant coating on machine parts.

After an hour of sulphidisation the tungsten oxide is reduced, losing its oxygen, and gradually turns into tungsten disulphide. Its molecules resemble buckyballs, the football-shaped molecules made from 60 carbon atoms.

If one layer rubs off another lies beneath to keep the innards of an engine or machine working

The finished molecules are made up of several layers like onions and this improves their lubricating properties. If one layer rubs off another lies beneath to keep the innards of an engine or machine lubricated and working.

The unbroken coat means the spheres have no reactive edges. So when they are used as a lubricant they will not decompose or react with what they are coating.

Prof Tenne says the little spheres just roll around and do not stick to anything. He adds this means they will last much longer than ordinary organic lubricants such as motor oil and graphite, which tend to break down and stick to what they are supposed to be protecting.

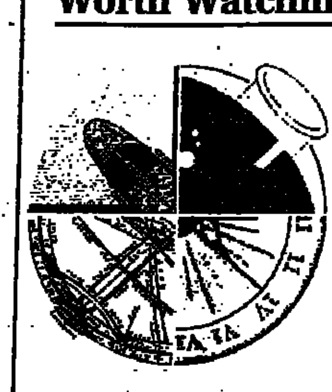
The Weizmann team is working on ways to refine their methods of making tungsten disulphide particles. Prof Tenne says the sulphidisation process would be easy to scale up to commercial size, but it has one drawback.

At the moment the spheres the team can make are around 120 nanometres in size, which Prof Tenne says is too big for a really effective lubricant.

Reducing the size of the spheres, he says, will depend on obtaining smaller tungsten oxide particles.

Mark Ward is technology correspondent for New Scientist

Worth Watching · Vanessa Houlder



Pig parts help build new knees

Pig intestines have traditionally been used to make sausage skins. Now they are being used to repair knee ligaments.

Skiers, footballers and basketball players are all prone to knee ligament injuries. Synthetic implants or tissue from elsewhere in the knee is usually used to repair the damage, but this treatment can be uncomfortable and unsatisfactory.

Clinical trials are now under way in the US to test a material derived from pig intestines that, when inside the human body, serves as a scaffold around which the body can regenerate damaged tissue. In animal studies, the material appeared to help the natural healing response. When the damaged ligaments were replaced with long thin strands of intestine and secured to the bones through small holes drilled for the purpose, new ligament-like structures were formed. So far, the researchers at Purdue University, Indiana, and DePuy Orthopaedics have found no problem with the body rejecting the material. The Purdue researchers are also developing applications for the skin, bladder and heart.

Purdue University: US, tel 7654942081; e-mail susan_gaidos@uns.purdue.edu

Breakthrough in shrinking market

Researchers at Philips in the Netherlands believe they have made a breakthrough in miniaturisation that paves the way for communicators and other gadgets to be shrunk to a size that will fit on to a wristwatch.

The technology, which it calls "silicon-on-anything", can be used to make tiny radio-frequency devices that use 10 to 20 times less power than those currently available.

It works by transferring complete circuits to insulating substrates such as glass, which is much more suitable for radio frequency devices than semiconducting silicon.

Philips Research: the Netherlands, tel 402742204; fax 402744947.

Biochip speeds up gene testing

A "DNA biochip" capable of testing for the Aids virus, cancer or tuberculosis could be in use within as little as two years, according to researchers at the Oak Ridge National Laboratory in the US.

The matchbox-sized biochip, which can analyse the genetic material in a blood sample, could yield test results in a few minutes compared with current techniques that take several days.

At the moment, tests tend to look for the antibodies or enzymes that are present with certain diseases or infections. The DNA probe would provide a direct method of detection, making it a precise and sensitive diagnostic technique.

The researchers have demonstrated the concept of the chip, but have yet to build a prototype, which they expect would take six months.

Oak Ridge National Laboratory: US, tel 4235760226; wallira@ornl.gov

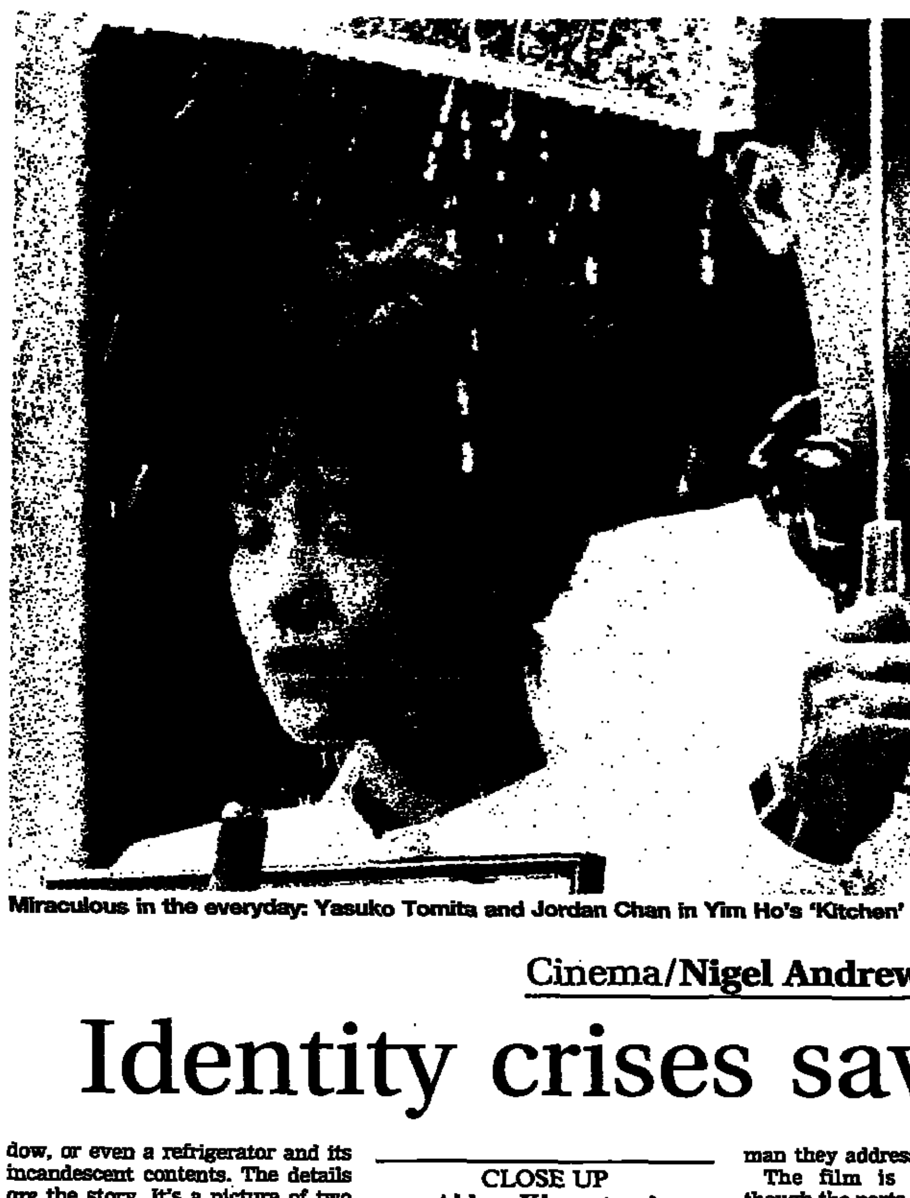
Eyes in the front of your screen

Computer screens usually face the wall, rather than the centre of the room. This hides the ugliest part of the machines, but means computer users never know who is walking up behind them.

Help is now at hand for anyone who wants to know who is looking over their shoulder. A rounded mirror, designed to rest on a corner of the computer screen, will make the entire room visible. The Monitor, which is made by the UK-based DesignAware Company, costs £4.95, plus £1 for package and posting.

DesignAware: UK tel (0)1384 482828; e-mail products@designaware.co.uk

ARTS



Miraculous in the everyday: Yasuko Tomita and Jordan Chan in Yim Ho's 'Kitchen'

Cinema/Nigel Andrews

Identity crises save the day

CLOSE UP **Abbas Kiarostami**
KITCHEN **Yim Ho**
GEORGE OF THE JUNGLE **Sam Weisman**
HOME ALONE 3 **Raja Gosnell**
PRINCE VALIANT **Anthony Hickox**
KISS ME, GUIDO **Tony Vitale**

Art cinema to the rescue. Never mind Tarzan, or his dashingly accident-prone descendant in Disney's *George Of The Jungle*. The heroes swinging from vine to vine this Yuletide, to save a festive season endangered by ravening turkeys (see *Home Alone 3*, *Kiss Me, Guido* and, heaven help us, *Spiceworld The Movie*, to be reviewed next Wednesday), are Iran's Abbas Kiarostami and Hong Kong's Yim Ho.

Both *Close Up* and *Kitchen* are about identity crisis; both seesaw masterfully between pity and hilarity. The films are such complementary bedfellows that they would make an Elysian, if elongated, double bill.

In *Close Up* Kiarostami, who won the Cannes Golden Palm this year for *The Taste Of Cherries*, spends 90 minutes sleuthing after a man arrested, and briefly jailed, for impersonating Iran's *other* major filmmaker, Mohsen Makhmalbaf.

The gentle fraudster was caught redhanded if hardly red-faced – his dream of borrowing a higher identity was too elevated for that – in the home of a bourgeois family who had half-adopted him. The sons wanted to act in his new film; they had even begun rehearsals. The mother felt motherly towards him even after he was clapped in handcuffs ("Let him finish his meal").

With the real impostor, Hossain Sabzian playing himself, the film becomes a jigsaw-structured inquest into the outlandish: a *Citizen Kane* for a saintly misfit. On trial one moment, in real incorporated courtroom footage, and re-enacting his story for Kiarostami the next, Sabzian emerges as a self-made philosopher of the Absurd. He has nothing to gain but a spurious respect accorded the famous: "If I'd told them to move a cupboard or cut down a tree, they'd have done it," he tells the court. Yet for him and for us, the incident becomes a touching, reverberant masquerade: all about humble lives reaching for the unreachable, about the illuminating plucked from the ludicrous.

The image Kiarostami casually conjures in an early scene – a waiting cab-driver retrieving some clipped roses from a mound of street sweepings, could be the frontispiece to *Kitchen* too (opening next week). Yim Ho's film finds the miraculous in the everyday. The pretty, grandmother-bereaved Aggie (Yasuko Tomita) learns about life through a new love that grows slowly, quirkily, from the detritus of the old.

Based on Banana Yashamoto's novel, the chamber movie has just three main characters: Aggie, her boyfriend Louie (Jordan Chan), and his transexual "mother" Emma (Law Kar-Ying). Yet the director, who made the wonderful *crime passionnel* psychodrama *The Day The Sun Turned Cold*, can create a richly figured landscape from a room, or a view through a window, or even a refrigerator and its incandescent contents. The details *are* the story. It's a picture of two cultures, pre-takeover Hong Kong and in later scenes mainland China, as refracted through three lifestyles. With Yim Ho, the way people think, feel, love and dream is reflected, even reified, in the things around them.

Yet while *Kitchen* is big on playfully Expressionist bric-à-brac – a pulsing lava lamp, a ring of giant toadstool-like park tables above night-time Hong Kong – the behavioural minutiae are never crowded out. Aggie's passion for ear-nibbling, Louie's complaints about the food when he is transplanted to China, Emma's campy *bons mots*: all turn a potentially sombre tale of emotional and spiritual readjustment – with a startlingly violent death at the midway point – into something like an Armistead Maupin story re-filmed for Zen comedy.

★

George Of The Jungle should come with a health warning: "This film will make you think you have seen it before." You have. In addition to being a live-action version of a children's cartoon series, it is Disney's *Jungle 2 Jungle* again, which in turn was a rain-forest retread of *Crocodile Dundee*.

Our Tarzanish hunk (Brendan Fraser) whose comic speciality is swinging straight into tree trunks – the first four times it is funny – follows the beautiful backpacking heiress (Leslie Mann), met when he saves her from a lion, back to New York. Here there are the mandatory pratfalls, misunderstandings, and social convulsions involving the girl's snooty family and the man they address as "Mr Jungle".

The film is funny in parts, though the parts do not include the umpteenth tree collision, nor the surreal wranglings between the characters and the voice-off narrator. Disney going postmodern; what would Walt say?

Throw a double six and move quickly to Chicago. Here a boy is "home alone" and, yes, you have seen this plot before too. Twice. *Home Alone 3* has no Macaulay Culkin – that actor's childhood having already been laid waste by early adulation – so we are subjected to Alex D. Linz, an alumnus of McDonalds commercials.

You could wake up screaming at the memory of his cherubic, smiling face. Failing that, you may be self-protectively asleep as he prangs or humiliates one burglar after another; though we critics did laugh (desperation takes over) at the scene of the mouse emerging from Footpad Number 3's trousers.

Ask to be excused and take a time machine to Dark Ages Britain. In *Prince Valiant* Joanna Lumley is Morgan Le Fay to Edward Fox's King Arthur – surely some wild narcotic dream of *AbFab*'s Patsy? As the woods ring to dialogue of the "Let us cross the swamp of Ardvark to take the castle of Sligon" variety, men wearing weird costumes compare fashion preferences with women wearing even weirder costumes, or none.

The old Prince Valiant (1954) was played by Robert Wagner in a page-boy haircut that time tried to forget. The new Valiant is a longhaired Essex man (Stephen Moyer) with a passion for swords, horses and Lady Ilene (Katherine Heigl). Anthony Hickox directs the romp with a guileless cheapskate charm, as if reflecting the press notes' candid account of the film's genesis. "The long period of developing the project for a top director hadn't panned out and they had to get (the film) in front of the cameras before the option ran out."

No one had to get *Kiss Me, Guido* in front of a camera. The audience's patience runs out long before any option could. This is the old comic chestnut about a gay flat-dweller's advertisement for a co-tenant being answered by an unsuspecting heterosexual. As written and directed by Tony Vitale, it is as funny as limp Christmas cracker joke. "Imagine a young Harvey Fierstein putting an ad in the paper and a young John Travolta shows up," quoth Vitale. No, no: that would have been the *good* film.

Theatre/Alastair Macaulay

Timeless flight from the nursery

What a poetic story *Peter Pan* is. And its greatest poetry occurs not with the Lost Boys or Captain Hook or anywhere in the journey to Never Land, but at home in London, in the nursery. Probably no other tale more profoundly captures the culture of nursery life (so deeply embedded in the English consciousness): the sense of snug community and maternal protection, the importance of manners and good form, the idyllic and heartless selfishness, the adventure of trying to comprehend the world outside.

On visiting John Caird's production of *Peter Pan* at the National Theatre, I find I had forgotten several wonderful details: such as when Peter, explaining to Wendy how he has been hovering at the window, trying to hear the stories her mother has been telling, tells her "That's why swallows nest in the eaves of houses, because they want to hear stories." And other details – above all, the one kiss that no man has ever taken from Mrs Darling's lips – I seem never to have known before.

At any rate, I feel as if I could never forget them now. The greatest performance in this production is that of Alec McCowen as the Narrator. Both the fastidious precision and the genial warmth of his manner are perfect here; we hang enchantedly on his words like Peter hovering to hear Mrs Darling's. Then there is the poignance of seeing Mrs Darling played by Jenny Agutter. English folk of my generation still think of Agutter as one of Nature's Wendys – not because we saw her play that role, but because, in the many child roles she has played, she perfectly encapsulated the well-bred nursery quality of an idealised English childhood. And to sense the Wendy within her mother is to be already deep in the world of *Peter Pan*. Wendy herself is played by Claudie Blakley, with a refreshing lack of demureness and a bright absorption in each unfolding aspect of the story.

Daniel Evans is so right for the title role in many ways – he is an overgrown boy who can encompass both Peter's petulant neediness and his valiant heroism – that I wish I did not have to point out the occasional artfulness in his engaging-little-boy diction. This is true – again only occasionally – of most of the other actors who play child roles: the wide-mouthed elocution, and the eye-widening hang of the head, are overemphasised just enough to remind us that we are seeing acting. The set for Never Land, designed by John Napier, is likewise just sufficiently Disneyfied in its cartoony toadstools and gnomes to keep telling us to suspend belief, and Jonathan Dove's arrangement of Stephen Oliver's music is too saccharine. And so the magical adventures of Peter, Wendy & Co are picturesque, but – ironically – not as compelling as McCowen's narration or the nursery scenes.

Two years ago, a child was so scared by the West Yorkshire Playhouse production of *Peter Pan* (directed by Matthew Warchus) that his parents complained to the theatre. It is unlikely any child could be scared at the National.

Ian McKellen plays both Mr Darling and Captain Hook. He works harder than everybody else to let us know that he is Only Acting, and he plays both roles safely for pantomime fun. Isn't the National Theatre one place where we should hope for a disturbing concept of this double role – something to match the Mother/Witch double role in David Pountney's English National Opera staging of *Hansel and Gretel*?

The flying is as enchanting as I have ever seen; in the nursery, it is very hard to know how Peter and the three Darling children all keep up their separate flight-paths without collision. Each of them swims in character, too; I loved the breaststroke leg-motions employed by John (Adrian Ross-Magenty). By the end, as McCowen draws the tale to its close, you feel with a keen pang the opposing pulls of Barrie's tale: the heartless freedom of the child who never grows up, and the heart-heavy responsibilities of the grown-up who can never forget the lost realm of childhood.

In repertory at the Olivier Theatre, London SE1.

Claudie Blakley and Daniel Evans Alastair Muir

Opera/Richard Fairman

Basement find made good

When it is digging around in the basement, the Royal Opera would probably most like to find a pot of gold, so the manuscript of an unperformed opera by Donizetti must seem second best by comparison.

The concert performance of *Elisabetta* on Tuesday at the Royal Festival Hall was the opera's premiere, 150 years after it was written. Like other operas of its period, it had a complicated genesis. Having enjoyed a reasonable success with an opera called *Otto mesi in due ore*, Donizetti was loathe to waste some good ideas. The score was revised several times, then recast for a French opéra comique version, and finally turned back into Italian for *Elisabetta* – as many re-writes as the latest James Bond film.

Two acts of the autograph score were discovered in a basement room in Covent Garden by a visiting American critic in 1984. The remaining act turned up four years later in a sack marked "Miscellaneous – no use". From that point the Royal Opera embarked on a lengthy piece of musical archaeology, putting the pieces back together again. A round of applause should have been reserved for the hard-working musicologists behind the scene.

This premiere was a *succès d'estime* for all concerned, if not a triumph. A rehash of an earlier work is never the same as a new composition, even when it is the composer himself doing the cutting and pasting. If he had seen *Elisabetta* on stage, Donizetti might well have sharpened up the flat first act. It is noticeable that the best sequence of music – the greater part of the second act – was lifted out of the original *Otto mesi*. Extra numbers composed for the later versions get progressively more feeble.

So what does *Elisabetta* add up to? Not much, as far as the drama is concerned. The story is ridiculous even by operatic standards: a girl from Siberia wants to clear her father's name, accidentally runs into his tormentor several hundred miles away, gets washed away in a flash flood (the storm music arrives faster than a sink could overflow) and finally wins a reprieve thanks to an opportune appearance by the Tsar.

It is best not to try to follow it through; just enjoy the good numbers when they come along. Two of the best fall to the comic baritone Michele, sparklingly sung here by Alessandro Corbelli (even if Donizetti never manages to blend his light-hearted bonhomie with the supposedly serious events going on around him). The bass Alastair Miles sang with measured gravity as the traitorous Ivano, who throws in the towel as a baddie worth knowing within minutes of us meeting him.

Very properly, the Royal Opera made sure this premiere was a complete performance. Second verses, repeats, long recitatives: they gave us the lot as written, which is more than could be said for most of the performances Donizetti would have witnessed of his operas in his lifetime. If the audience felt that *Elisabetta* moved slowly, it was more likely because it was uncut than anything to do with Carlo Rizzi's spick-and-span conducting and the orchestra's lively response.

Apparently, Juan Diego Floréz only saw the score for the first time on Thursday, but he sang the role of Count Potoski with style, engagement, and remarkably easy high C sharps and Ds. This bright-voiced young Peruvian tenor looks a find for the bel canto repertoire. *Elisabetta* does not get any of the best arias in the opera that bears her name, but Andrea Rost sang with a class that befitted the title-role. In its august history the Royal Opera can claim many premieres by great composers. Here – unexpectedly – was one more.

Sponsored by the Friends of Covent Garden. BBC Radio 3 will broadcast *Elisabetta* next Monday.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
On Country Roads and Fields: tracing the development of Dutch landscape painting through the 18th and 19th centuries, including examples of the Hague School and turn-of-the-century works by Van Gogh and Mondrian; to Mar 3

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Dialogues des Carmélites: by Poulenc. New production conducted by Yves Abel in a staging by Robert Carsen. Cast includes Joan Rodgers and Sheri Greenawald; Dec 19, 22

■ BARCELONA

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-3-207 7475
Madrid-Barcelona, 1930-1936: brings together a group of around 100 avant-garde works from the period of the Second Republic, before the Civil War. Includes works by Picasso and Miró along with photographs, posters and films; to Dec 21

■ BERLIN

CONCERTS
Deutsche Oper
Tel: 49-30-34384-01
Carmina Burana: by Orff. Conducted by Rafael Frühbeck de Burgos. With the Clemencic Consort conducted by René Clemencic; Dec 19

Philharmonie
Tel: 49-30-2548 8354.
Berlin Philharmonic Orchestra: conducted by Daniel Barenboim in works by Mendelssohn, Rihm and Bruckner; Dec 19, 20, 21

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Hänsel und Gretel: by Humperdinck. Premiere conducted by Olaf Henzold in a staging by Andreas Homoki; Dec 18, 21

■ BOLOGNA

OPERA
Teatro Comunale
Tel: 39-51-529 999
Turandot: by Puccini. Conducted by Daniele Gatti in a staging by Hugo de Ana; Dec 18, 21

■ CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
Amistad: world premiere of Anthony Davis's new work about the 19th century anti-slavery campaign. Dennis Russell Davies conducts a production by George C. Woolfe; Dec 20

■ HONG KONG

EXHIBITIONS
Hong Kong Museum of Art
www.usd.gov.hk/CE/Museum
National Treasures: Gems of China's Cultural Relics. Major exhibition assembling some 160 works of art on loan from China's 30 museums. Includes bronzes, jades, ceramics, paintings and tapestries, some of which have never travelled before. The exhibition brings together objects from all over China, and ranges from the Neolithic period to the early 20th century; to Mar 1

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● Christmas Carol Concert: Richard Hickox conducts the London Symphony Orchestra and Chorus in a programme including Humperdinck's Hansel and Gretel Overture and extracts from The Nutcracker; Dec 20, 21
● London Symphony Orchestra: conducted by Tadaaki Otaka in works by Rachmaninov. With Leif Ove Andsnes in Piano Concerto No. 3; Dec 18

DANCE
Royal Festival Hall
Tel: 44-171-9288800
The Royal Ballet: Les Patineurs/Tales of Beatrix Potter, by Frederick Ashton; Dec 23

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Beethoven, John Williams and Nielsen. With violin soloist Alexander Treger; Dec 18, 20, 21

■ MILAN

DANCE
Teatro alla Scala
Tel: 39-2-88791
Giselle: with sets and costumes by Marie-Louise Ekman; Dec 18, 20

OPERA
Teatro alla Scala
Tel: 39-2-88791
Macbeth: by Verdi. Conducted by Riccardo Muti in a staging by Graham Vick, with designs by Maria Bjornson. Casts vary; look out for Maria Guleghina and Roberto Alagna; Dec 19, 21

■ NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by Kurt Masur in works by Shostakovich and Prokofiev. With violin soloist Midori; Avery Fisher Hall; Dec 18, 19
● New York Philharmonic: conducted by Dr Walter J. Turnbull with the Boys Choir of Harlem; Avery Fisher Hall; Dec 20
● New York Philharmonic: Klezmerfest. With the Andy Statman Orchestra and Klezmer Conservatory Band; Avery Fisher Hall; Dec 21

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
George Balanchine's The Nutcracker; Dec 18, 19, 20, 21, 22, 23

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Picasso – The Engraver: Selections from the Musée Picasso, Paris. Around 150 engravings, etchings and woodcuts created between 1900 and 1942. The display includes sequences which show the development of individual images, and carved woodblocks and metal plates; to Dec 21

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Don Giovanni: by Mozart. Production by Franco Zeffirelli; Dec 20
● Il Barbiere di Siviglia: by Rossini. Revival of a staging by John Cox; Dec 20

■ PARIS

EXHIBITIONS
Centre Georges Pompidou
Tel: 33-1-4478 1275
www.cnac-gp.fr
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations as well as neon pieces like One hundred live and die (1984). The exhibition will travel to London and Helsinki; to Mar 9

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
● Der Rosenkavalier: by Strauss. New production conducted by Edo de Waart in a staging by Herbert Wernicke. Cast includes Renée Fleming, Susan Graham and Barbara Bonney; Dec 19
● La Traviata: by Verdi. Production directed by Jonathan Miller and conducted by James Conlon. Angela Gheorghiu sings the role of Violetta with Ramon Vargas as Germont; Dec 20

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
The Merry Widow: by Franz Lehár. Armin Jordan conducts a new production directed by Jorge Lavelli, with sets by Antonio Lagarto; Dec 19, 22, 23

Théâtre des Champs Elysées
Tel: 33-1-49525050
Fidelio: by Beethoven. Production staged by Patrice Caurier and Moshe Leiser, with the Orchestre des Champs-Elysées and the Choir of the Welsh National Opera. Conducted by Louis Langrée; Dec 18

■ ROME

OPERA
Teatro dell' Opera
Tel: 39-6-481601
www.themix.it
La Fiamma: by Respighi. This first production of the season is by Hugo De Ana, and is conducted by Gianluigi Gelmetti; Dec 19

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC Europe**
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Economic Viewpoint · Samuel Brittan

Money only helps a little

The state is not very good at promoting either happiness or economic growth, both of which it should leave to citizens to pursue in their own way

Only a fool equates money with happiness; and only a greater fool believes that money does not matter. These not very profound reflections are provoked by a set of articles on economic performance and happiness in the November issue of the Economic Journal*. Their common theme is that economists should be concerned with conventional indicators such as the money supply, inflation, growth, income distribution or unemployment only so far as they can be related to human happiness. Failure to do so accounts for "the solid greyness of the business sections of our newspapers".

No contemporary social scientist, however, is likely to do better than Sigmund Freud, who is quoted as saying: "What we call happiness ... comes from the (preferably sudden) satisfaction of needs which have been dammed up to a high degree." Joyce Grenfell is also quoted for the remark: "Happiness is the sublime moment when you get out of your corsets at night."

The revival of economists' interest in happiness stems not from such insights, but from their discovery of the questionnaire method which has long been used by sociologists, psychologists and students of politics. Given the lead of these other disciplines, it is unlikely that economists will make a breakthrough. And indeed they have a tendency to discover the obvious and announce it with great glee.

The philosopher Gilbert Ryle would have looked not at what people said, but at how they behaved. If a child or a grown-up takes every opportunity to build model aircraft, returns to them whenever he can, and shows irritation when kept away from them, he is said to be happy pursuing his hobby and need not be distracted by silly questionnaires.

The EJ contributors take a different route. Andrew Oswald is concerned to emphasise how small the amount of extra happiness a rising gross domestic product can bring. Robert Frank takes a more favourable view of growth, and indeed argues for an expenditure tax partly on account of its growth-promoting properties. But both authors distrust what they see as business culture and its promotion by governments.

Their data do indeed suggest that the richer members of society are on average more content with their lot than the poorer. They accept that, as GDP rises over time, the level of overall satisfaction also rises, but by not nearly as much. And there are many exceptions. For instance, Belgians seem to have been become far more dissatisfied in recent decades and the British slightly more so.

Similar results emerged long ago from studies of savings. The rich save more than the poor, but rich countries save only slightly more than poor ones. In fact, one survey shows "happiness" differences between countries at any one time far exceeding changes over the years. In contrast to the popular image of carefree Mediterranean peoples and sombre northern ones, it seems over 60 per cent of Danes and over 40 per cent of the Dutch are "very satisfied" with their lives. But only 13 per cent of both French and Italians are willing to say the same.

The finding about which Oswald feels most strongly is that the greatest levels of unhappiness are reported among the unemployed. One is tempted to respond: "Surprise surprise." The relationship may still reflect a drop in income relative to past experience or expectations. Let us, however, grant that it is also due to feelings of worthlessness, reduced social contacts and so on. All this amounts to little unless it is claimed that governments know how to promote full employment and have deliberately refrained from doing so.

Some readers may draw the conclusion that governments have mistakenly concentrated on low inflation instead. But Professor Oswald is too aware of the now conventional belief that there is no long-term trade-off between unemployment and inflation to say this explicitly.

In what other ways can governments give higher priority to employment? They could try to promote flexible wages that move up and down according to the state of the labour market. But, to put it mildly, none of the authors shows any taste for such policies, which may themselves be a source of dissatisfaction.

An alternative might be to try to prop up declining industries and put up barriers to international trade and investment. This is the French socialist route. Such measures do not preserve jobs indefinitely, but only buy time, which is rarely well used. When the job losses occur, they are more sudden and alarming than if the labour market had been permitted to operate earlier.

Even if the measures were pursued so relentlessly, and with such a battery of police controls at the frontier, that they did preserve some jobs, would they really promote happiness? If self-respect comes from working to meet the needs of fellow human beings, will it survive if the "job" becomes more and more obviously a kind of dole for which they have to carry out tasks that society does not need?

"Welfare to work" is helpful to the extent that it removes disincentives in the way of workers taking jobs and employers offering them. But it is doubtful if the more coercive side – cutting of benefits – is conducive to happiness at all.

The Economic Journal writers are consciously going back to 19th century practice when economists were indeed concerned with maximising satisfaction, to which they gave the clinical-sounding name of "utility". This was assumed to be related to income, and was subject to diminishing returns as incomes rose. In the early 20th century, however, they abandoned any concern with the kind of satisfaction that might be measured on a happiness meter and instead began to look at individual choices, as they were revealed by market decisions.

I argued in my own book, *Capitalism with a Human Face*, that the promotion of individual choice was not just a second best forced on us by the absence of a happiness meter, but a superior objective, and that attempts by the state to promote happiness directly could have totalitarian results, as Aldous Huxley showed in *Brave New World*. The parenthetical suggestions in the EJ articles, which refer to neurological experiments in stimulating happiness centres of the brain, are not at all reassuring.

Even promoting choice, however, can be dangerous if pursued in the contemporary technocratic way. A better goal was provided by Michael Oakeshott, the political philosopher. He envisaged a civil association in which individuals and families pursued their own interests, not only in the market but also through voluntary associations. The job of the state is to hold the ring and provide a stable legal and monetary system so that people can pursue their individual aims.

It was not in Oakeshott's style to develop a detailed blueprint for a civil association. He would surely not have ruled out the elimination of disincentives to wealth creation. But he would have excluded all exhortation in this direction, and would have had nothing to say against lotus eaters who preferred to sit in the sun. No wonder he is not among today's most fashionable gurus.

Blackwells of Oxford

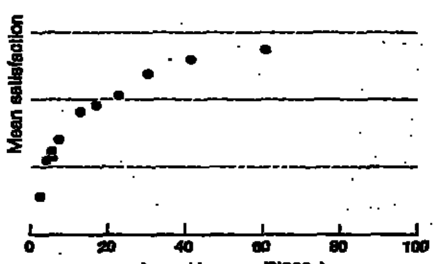
Satisfaction in Europe

Proportion who reported themselves as 'very satisfied' with their lives

Country	Average 1973-81	Average 1982-90
Belgium	39.5%	24.7%
Denmark	51.7%	62.8%
France	12.4%	13.7%
W.Germany	18.8%	23.4%
Ireland	38.8%	31.1%
Italy	9.0%	13.2%
Luxembourg	34.6%	39.1%
Netherlands	41.3%	41.8%
UK	31.7%	30.9%

Source: Economic Journal, Nov 1997

Income and reported satisfaction in the US
1981-84



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com
Published letters are also available on the FT web site, http://www.FT.com
Translation may be available for letters written in the main international languages.

Import ban by UK is on risk materials, not on beef

From Mr Jack Cunningham MP.

Sir, Commentary in your report "Bonn attacks UK for its planned food ban" and leading article "Meat scares" (December 17) showed confusion about my recent actions relating to beef and BSE.

The decision on specified risk material is wrongly described as a ban on beef imports. In May I received advice from the Spongiform Encephalopathy Advisory Committee that imported beef could carry a significant risk of BSE infectivity and that the same rules on removing risk materials should apply to imported beef as to home supplies. I made clear that I must act on this advice, but delayed because there was a prospect of action at EU level.

I supported the adoption of EU-wide rules in July, reluctantly agreeing to a delay until January 1. These rules have now been postponed until April 1. Several other countries have had numerous cases of BSE – the numbers are much lower than in the UK – but BSE has a long incubation period and only in the UK is meat from animals over 30 months kept out of the food chain.

SEAC having advised that we should take action, I could not defend any further postponement and thus tabled legislation effective from January 1.

My actions go no further than the now-deferred Commission decision. Provided the risk materials are removed, beef from any EU country can be imported. This is not a ban on imports of beef. The French government introduced similar measures last month. Emma Bonino, the EU commissioner responsible for food safety, has confirmed that the German suggestion that we are acting illegally is not correct.

The ban on bone-in beef is based on more recent SEAC advice. The scientific background is different and the risk is markedly lower. I judged that action was needed to protect consumers by removing the bone from beef before it is put on sale to the final consumer. Beef can be imported on the bone provided the bone is removed before sale.

This is different from the prohibition on SRM which applies at the point of import.

I believe the problems of enforcement are overstated. Local authority officers visit butchers' shops and restaurants regularly. It is easy to see if beef is being sold on the bone. These rules are to protect the public and I look to everyone to play their part in seeing they are respected.

It is my duty to ensure food is safe. I am acting to do so in a consistent, balanced way taking account of the detailed scientific advice I have received. I shall continue to do so.

Jack Cunningham,
minister,
Ministry of Agriculture,
Fisheries and Food,
Nobel House,
17 Smith Square,
London SW1P 3JR, UK

Ludicrous to suggest gold is a 'goner'

From Mr Paul Sarnoff.

Sir, I was severely shocked to read the blatantly biased article against investing in or retaining gold ("Death of Gold", December 13-14).

Kenneth Gooding, for example, claims: "The new breed of central banker is not dazzled by gold and sees little point in having an asset that takes up storage space ...". By using the example that Argentina sold off its puny gold reserves to invest in US Treasuries for a 5 per cent return, he is implying that such a move provides income without risk to principal. US bonds can drop sharply if interest rates rise, creating risk of loss to the central bank involved – plus, in my opinion, funds invested in the securities of a virtually bankrupt nation like the US, reflect fiscal insanity.

And the writer's conclusion (near the end of his negative article), "But when it comes to bullion as an investment, and as a measure of national wealth, gold is a goner ...", would be ludicrous if people believed it. People who sell off their gold or gold shares, are assuming the US$ gold price will fall into a black hole. But I wrote years ago that "assumption in the gold market is the mother of all foul-ups". Every ounce that comes out of the ground is looked after every day. And shorts have to cover at times.

Moreover, when it comes to gold as a measure of national wealth, the golden rule still works: "He who has the gold makes the rules." The US holds about 253m gold ounces in "storage" – and I haven't heard Alan Greenspan, the Federal Reserve chairman, refer to it either as a "barbaric relic" or imply the Fed would sell off some of those ounces for financial "investments" that would make the country profits.

Paul Sarnoff,
The Metals Consultancy,
PO Box 178,
Baldwin, NY 11530, US

BOOK REVIEW · Bruce Clark

THE GRAND CHESSBOARD: American Primacy and its Geostrategic Imperatives.
By Zbigniew Brzezinski. Basic Books, $26, 215 pages

The games nations play

Many Americans talk about their country's place in the world as though it had somehow transcended foreign policy in the classical sense. Not for us the scheming, cynical, balance-of-power games of the old world; all Uncle Sam ever wants is open markets, open societies, a nice level playing field.

Zbigniew Brzezinski, the former US national security adviser and eagle-eyed doyen of Washington's foreign-policy elite, would certainly not be against those principles. After all, he was among the first to see how civil society in eastern Europe could be used to dislodge Soviet power. But he is also an unabashed advocate of geopolitical gamesmanship. In a world where technology is supposed to be killing distance, and waging war to acquire territory has been dismissed as obsolete, he preaches the old-time doctrine of strategy and spheres of influence.

Some readers (though not this one) would hold this against him. But Professor Brzezinski is a scholar who combines the bustling, can-do activism of his adopted country with the instinctive pessimism, and historical sense, of a Pole.

In his latest essay, he explores the implications of a few, simple geopolitical propositions. First, America enjoys global primacy in the economic, military and cultural spheres. Second, the Eurasian landmass – the "central arena" in global power plays – is up for grabs because no country inside that space can dominate it. So America must use its historic window of opportunity, before the inevitable decline in its relative strength, to act as stabiliser and arbiter in Eurasia. Underpinning the Brzezinski vision is fear of an anti-American bloc grouping Russia and one or more of the other Eurasian players – China, Iran, or even France or Germany.

Sensitive to the charge that he is a gratuitous Russophobe, Brzezinski is careful not to exaggerate the likelihood of such an axis. "A coalition allying Russia with both China and Iran can develop only if the US is shortsighted enough to antagonise [both] simultaneously," he writes.

Popperfoto

Brzezinski, pictured in 1978 while national security adviser

Perhaps he need not have been quite so careful, given recent challenges to US authority: Franco-Russian investment in the gas fields of Iran, and the abstention by France, Russia and China in a key UN vote on Iraq.

But this fear of driving potential adversaries into one another's arms is what underpins the most controversial tenets of the Brzezinski doctrine. The US, he says, should improve its relations with Iran and cultivate China. Russia, meanwhile, should be guided towards an Ataturk-style transformation from multi-national empire to modern, European state with clearly defined borders. The US should zealously safeguard the independence of Ukraine and the energy-rich lands around the Caspian.

> The danger is that containing Russia or any other state within its legal boundaries can mean indifference to what goes on within those frontiers

This wooing of China and Iran makes perfect sense if one makes the very large assumption that Russia, of all the Eurasian players, remains the most incorrigibly anti-western.

But the jury is still out on this question. With Russia, no less than with Iran or China, western policy hopes for the best while preparing for the worst. Hopes for a rapprochement with Iran have surged in recent days with the change in rhetoric from both Tehran and Washington; but for at least one part of Iran's elite, anti-westernism is a question of principle, not tactics. And of the two countries seen by the Pentagon as potential regional challengers next century, China seems more determined, and better placed, than Russia to build up the necessary mixture of economic, military and ideological power.

Yet unusually among US scholars, Brzezinski takes seriously the romantic, mystical versions of Slav nationalism that find their purest expression in Russia's opposition but also command influence in the Kremlin. At times he is a sort of mirror image of the Slavophiles: their dreams are his nightmares. As the ultimate guarantee against a resurgent Bear, he fleetingly suggests Russia's break-up into a "loose confederation" of European, Siberian and Far Eastern states. Rich as their language may be in unprintable expletives, this proposal will leave many Russians lost for words.

There is another, more serious risk in a policy that treats Eurasia as a geopolitical chessboard and places overwhelming emphasis on confining the influence of each state to its legal boundaries. The danger, or rather temptation, is this: containing Russia or any other state within its legal boundaries can mean indifference to what goes on within those frontiers.

For anyone concerned principally with containment, the Chechen war – which took place within Russia's legal frontiers and drained Moscow's ability to project power any further – was a windfall, not a tragedy. This may explain why the Washington establishment was, with a few noble exceptions, so unmoved by a conflict whose intensity and cruelty easily matched if not exceeded the much-discussed horrors of Bosnia. In the words of two young reporters who observed the new Eurasian reality from bombed-out Grozny: "The western reaction to events in Chechnya was, apart from a few carefully phrased comments about excessive use of force, silence."*

With or without an Ataturk, the construction of well-defined modern states out of multinational empires is often a bloody business for minorities in the wrong place. And that is something that would-be players of geopolitical chess, in the comfortable salons of Washington or anywhere else, should always bear in mind.

The Grand Chessboard *is available from FT Bookshop by ringing +44 181 324 5511 or fax credit card details to +44 181 324 5678 (post and packing £1.50 in Europe).*

**From* Chechnya: A Small Victorious War *by* Carlotta Gall *and* Thomas de Waal *Pan Books, London 1997*

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Thursday December 18 1997

Unfinished task in Bosnia

Bill Clinton is to make an announcement on the future of the US engagement in Bosnia *before the weekend. He will* have to choose his words with care, since by the spring he must convince Congress of the case for keeping US troops in Bosnia after next June – by which date he promised to remove them when deciding to keep them there beyond the original deadline a year ago.

Mr Clinton is believed to have come round to the view, long held by his European allies, that it would be wrong not to leave some international troops there after the mandate of the present Nato-led force expires; and he knows that the Europeans are determined not to be left there by themselves, with US forces only in the air, as in the unhappy days of the UN protection force. But he also knows US legislators have no sympathy for this attitude, and that their patience with the whole operation is wearing thin.

He will probably put the emphasis on the US's responsibilities as leader of Nato, thus preparing the ground for it to play its part in implementing a decision to be taken in due course by the alliance as a whole. What he must not do is paint the situation in Bosnia so black as to encourage those critics, such as Henry Kissinger, who say the Dayton peace accords can never work and should be replaced by a simple endorsement of partition.

It is true that many clauses of the accords remain imperfectly implemented or not at all. It is true that Bosnia is still divided into three largely homogeneous ethnic areas with nationalist leaders who are most reluctant to co-operate, so that this week (for example) Carlos Westendorp, the international community's High Representative, had to impose a citizenship law on which the parties had been unable to agree. But his authority to do so is not contested, and it is far from true that nothing has been achieved.

In fact the international community has had a great success this year in breaking Radovan Karadzic's control of the Serb Republic and enabling Serb voters, at least in the western half of the zone, to show that they preferred the leadership of the more co-operative Biljana Plavsic. While few displaced Moslems or Croats have been able to go back and live in the Serb zone, many can and do travel back and forth to Banja Luka and other places in the area Mrs Plavsic controls; and telephone communications across the lines have been restored.

In the Moslem-Croat Federation itself much of the infrastructure has been rebuilt and housing repaired; and non-ethnic opposition parties won more than 20 per cent of the vote in recent local elections.

Bosnia is not Cyprus, where UN forces man a green line keeping two communities completely apart. It is a country disfigured by terrible violence, whose people are slowly gaining confidence to resume normal contacts thanks to the presence of an international authority backed by a visible military force. The military element can be reduced next year, and should be reconfigured to give more direct support to the unarmed international police task force. Its departure would be tragically premature.

More, please

Yesterday's cuts in income tax are a welcome volte-face from Japanese prime minister Ryutaro Hashimoto. Taken together with the proposal to float Y10,000bn-worth of IOUs to support the banking system and the moves to liquefy the real estate market, it suggests that the government is inching towards a better understanding of the nature of Japan's economic problems. But it has yet to grasp their scale.

The aggregate fiscal boost from the tax cuts and additional public spending amounts to just under one per cent of GDP. That will not compensate for the damage done by the April sales tax increase. And since the income tax reductions are for a single year, a high proportion will anyway be saved.

On the banking front, meantime, there is no indication of a broader strategy to address the crisis of solvency that afflicts the system. The authorities appear dangerously vague about how they will deploy the proceeds of the bond issue. It is vital that the money is not used indiscriminately in support of the terminally weak as well as the solvent.

The stock market reaction to yesterday's announcement was understandable but over-optimistic. The government needs a further financial shock to prompt it into the bigger fiscal boost that will be needed to restore business and consumer confidence. The lesson of the abortive fiscal expansion of 1995-96 is that the domestic economy has to be allowed to build up sufficient momentum to withstand the fiscal tightening that will inevitably follow. More international pressure is needed to ensure that Mr Hashimoto grapples with this point.

Lone parents

In the UK, Tony Blair has tasted the cold steel of government with last week's backbench revolt over cuts to lone parent benefits. In the US, states working hard to "end welfare as we know it" are also discovering there is a price to pay for this brave ambition. There are parallel lessons being learnt on both sides of the Atlantic.

Britain's Labour government found its MPs in revolt thanks initially to its decision to stick with the outgoing Conservative government's spending plans. This meant that the abolition of lone parent premiums, already pencilled in by the Tories, had to go ahead. But there was important symbolism to the move as well. Work not welfare, self-help not dependency, is the theme that Mr Blair – like President Clinton – wants to mark his government.

Reducing benefits for lone mothers in the UK thus sends an important monetary and political signal: that ministers do not wish to encourage lone parenthood. They do wish to encourage work. Hence the "new deal" for lone parents, providing them – at present on a voluntary basis – with the job search advice that can deliver employment.

Mr Blair's difficulty, however, is the gap between rhetoric and reality. The benefit cuts, including the already established freeze for existing claimants, will affect all lone parents, lowering their standard of living. Some £700m, maybe even more, is likely to be saved over the lifetime of this parliament.

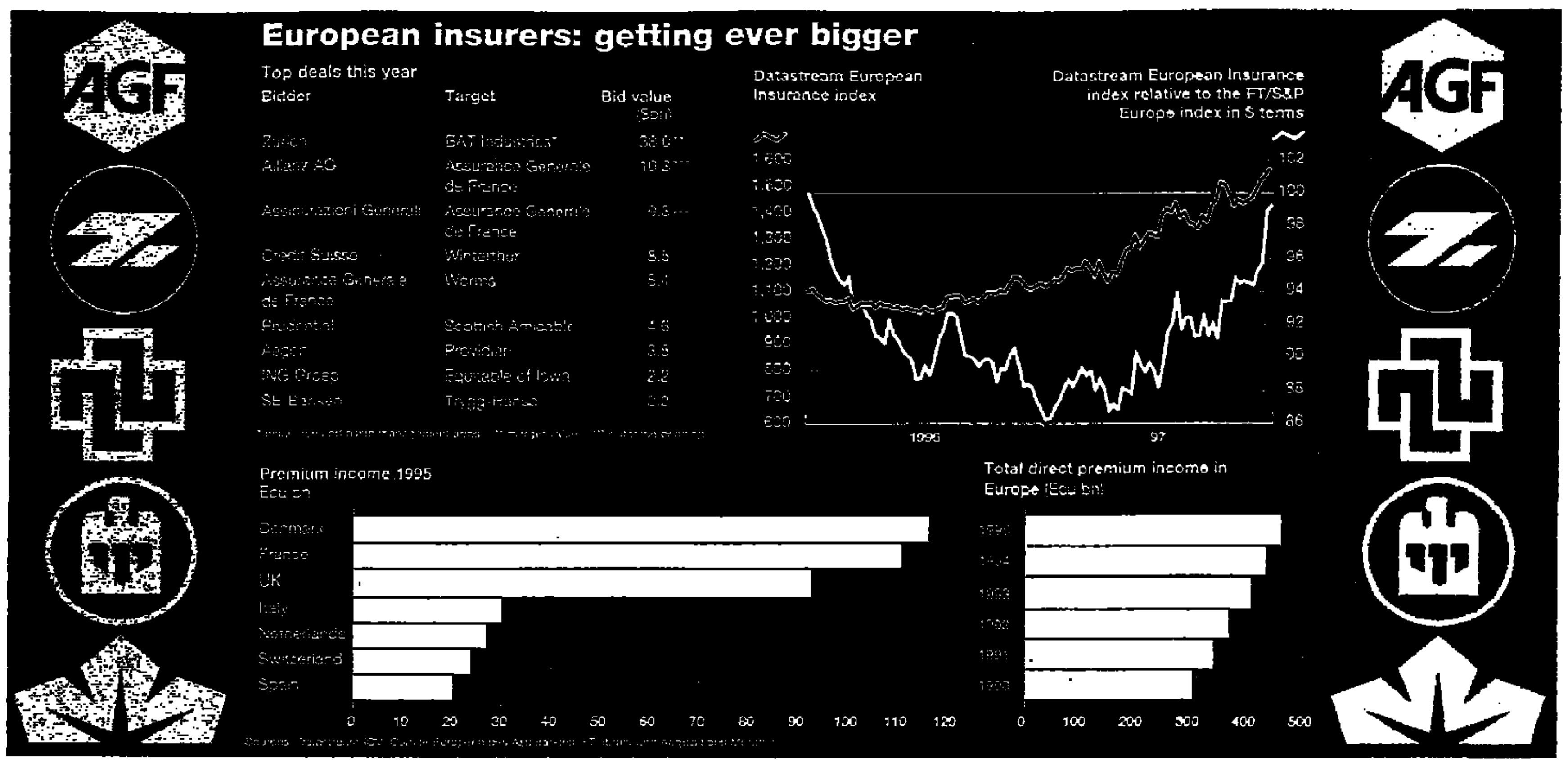
The "new deal", by contrast, costs only a fraction of that – £200m over three years – and will offer job search advice to only a proportion of mothers on benefit.

In addition, the extra £300m announced in the green budget for after school child care clubs is poorly targeted on lone mothers attempting to get back to work. It is open to all parents, and addresses only part of the working day. Much more child care will be needed if a large scale transfer to work is to become a reality.

Which brings the parallel with America. The US programme is very different from the UK's. It aims to fix a broken system that trapped lone mothers on welfare in a way that the UK's benefit system never has. It is compulsory. And while the programme varies by state, it is aiming in some cases to drive lone mothers back into work or work-related activities with babies as young as twelve weeks.

But to make it work, states are discovering they need a big expansion of child care – plus health care and transport costs. This is proving costly to deliver, not least because it needs to be extended to the working poor if new cases and ex-welfare recipients are to be prevented from falling back into the welfare net. The US, too, is discovering a gap between rhetoric and reality, which the states have started to address, but so far on a scale that is likely to prove insufficient.

The lesson from both sides of the Atlantic is that real welfare reform is not a cheap option or an exercise in cost-cutting. It may be a far better way to spend taxpayers' money. But to achieve anything lasting, rhetoric will need to be matched by resources.



Safety at a premium

Insurers in continental Europe are growing by acquisition. **Christopher Adams** weighs up the pros and cons of this strategy

Primitive peoples discovered no need for insurance, finding their needs fully protected by the family or tribe – Robert de Smet, Traité Théoretique et Pratique des Assurances Maritime

Continental European countries pride themselves on being highly civilised, so it is perhaps no surprise (considering Mr de Smet's thesis) that in Europe, more than elsewhere, the need for insurance – or at least the activity surrounding its provision – is growing exponentially.

The finishing touches are now being put on a deal that would create the world's second largest and the continent's biggest insurer. Munich-based Allianz seems to be on the verge of agreeing with rival bidder Italy's Generali to take control of Assurances Générales de France.

Only a week ago, AGF itself made a FFr32bn (£3.24bn) friendly offer for Worms et Cie, the conglomerate that owns Athena, another French insurer. Zurich, the Swiss-based insurance group, has announced a £23bn merger with the financial services arm of BAT Industries, the UK-based tobacco and insurance business, while Credit Suisse has created a powerful new "bancassurance" force with the SFr12.8bn acquisition of Winterthur. And as if all that were not enough, the French government is planning to privatise Gan, France's troubled state-owned insurance company.

With so many companies getting bigger and more diverse, it is tempting to believe that companies are engaging in a titanic struggle for market share that only those with the greatest financial muscle and broadest geographical spread can survive. But will increased size necessarily lead to higher profitability?

Speak to those involved and *they say the reasons for deal*making are clear. "The financial services industry is consolidating all over the world," says Henri de Castries, head of finance and investment management at France's Axa, which acquired its recently privatised but less efficient rival UAP last year.

"Technology enables you to do things on a much bigger scale than before and regulatory barriers are coming down. Further unification of the European market is going to force companies to think at a European level and not only in terms of a single currency."

As companies look to take advantage of these trends, they see a thriving market. Europe's insurance business is growing at some 6.8 per cent annually and is worth more than £330bn in premium income, according to the Comité Européen des Assurances, a trade association. Insurance sales have outpaced economic growth in most countries and have risen from 4.9 per cent of gross domestic product in 1991 to 7 per cent in 1995.

Competition in the business, however, has intensified, cutting margins and making it harder for weaker companies to survive. In 1994, the European Commission ordered EU member states to abolish fixed tariffs and policy terms, making it easier for new entrants to compete. Premium rates have begun falling in many parts of the German and French non-life markets as foreign insurers have stepped up efforts to snatch business from domestic rivals. In motor insurance, competition has come from low cost "telesales insurers", who cut out agents and brokers.

Competition is also coming from people who used to be considered outside the sector altogether. According to a report by McKinsey, the management consultants, banks have made inroads into the life assurance business, hoping to exploit the growth in unit-linked products that provide an annuity income for people in old age. Demand for personal pensions is growing fast as state provision is scaled back. *As the boundaries separating* insurance from reinsurance, asset management and investment banking have begun to blur, many others are rushing in to compete with insurance companies. This is providing another reason for insurers to diversify and get bigger.

To compete with banks and others, insurers have been seeking to create large asset management groups. Axa is the second largest asset manager in the world and Zurich has acquired funds expertise in the US through the purchase of Kemper Investments and Scudder, Stevens & Clark. The recent trend towards "bancassurance" has been most successful in France, where such ventures now account for half of all life sales.

The blurring of boundaries has extended to commercial insurance markets too, where multinational clients are beginning to insure themselves, demanding cover only for big financial losses and taking insurers into the areas of capital provision and investment banking. Companies are providing an increasingly global service, again feeding the trend towards consolidation.

As competition squeezes margins, companies face increasing pressure to diversify out of domestic markets in order to spread the risk of volatility there. Some analysts believe the introduction of a European single currency will accelerate this process because it will make it easier to buy and sell companies across borders. The euro will also allow fund managers to offset pension liabilities with assets from anywhere in Europe without incurring exchange rate risk.

As a final reason to get bigger, technology creates economies of scale. "Size does have its advantages: greater use of automation, tighter control of expenses and better buying power. Technology is used for all kinds of purposes. You can set up direct monitoring of losses on personal computers and use imaging software to han*dle claims better," says Stephen* Dias, insurance analyst at Goldman Sachs.

Yet set against all this, there is a curious fact: there have been few big insurance mergers in Europe to provide solid evidence that companies do increase profitability as they get bigger. Indeed, those mergers that have happened have not been especially successful. Some analysts point to the acquisition by Allianz of France's Navigation Mixte's insurance activities in 1989, saying it overpaid for businesses that performed badly.

Merged companies can boost profits through cutting costs. But scope for cost-cutting is far greater at a national level between two domestic rivals – such as the UK's Royal Insurance and Sun Alliance, which merged in 1996 – than it is between companies based in different countries with few overlapping operations.

Some mergers can boost profits if the customer is barely aware of the change. Michael Sundman, head of corporate development at Baloise, the Swiss-based insurer, uses the drinks market as an example. There, family-owned companies under pressure to supply supermarkets at discount prices rushed to merge with each other in the mid-1980s. For the customer buying a certain brand of whisky or beer at the supermarket, he says, the effects of consolidation were almost unnoticeable. It made little difference who owned the brand.

But insurance is different. In continental Europe, most business is sold through tied agents, not supermarkets. While costly, the agents build personal relationships with customers. Combining salesforces or altering the brand could damage the business.

Lessons can also be learnt from the insurance business elsewhere, notably the US. In the non-life US insurance market, where intense competition and sluggish premium growth have fuelled consolidation for much of the past decade, smaller insurance companies have gained mar*ket share at the expense of larger* rivals.

The lessons of the US now are almost the reverse of what is happening in Europe, suggests a report by Swiss Re, the Zurich-based reinsurer. "Because of low market growth, the large traditional insurance companies are in the process of transforming themselves from insurance 'supermarkets', offering everything to everyone, into groups of specialised companies."

"Growth and size are not the decisive factors for the bottom line," says Swiss Re. "It is the right business mix, level of capitalisation and leadership which have proved to be more decisive."

That does not necessarily prove bigger is worse. But as companies get bigger, the risk increases that they may lose control over the details of underwriting. Although smaller, more focused companies cannot generate the same administrative savings as larger ones, they can ensure that better risks are selected by paying high performance-linked commissions to fewer agents.

Furthermore, some analysts argue that the regional differences between Europe's personal insurance markets are still too great for any real cross-border synergies. Monetary union on its own will fall far short of providing the economic and legislative harmonisation necessary to sell life assurance and pensions across borders, they say. In some countries, for example, customers can only claim back tax on life policies they have bought from local suppliers.

Arguably, there are simpler ways to increase profits than buying companies across borders and becoming huge. For instance, the investment portfolios of many Italian and French companies still hold extremely high proportions of lacklustre real estate. Spinning these off could yield more tangible benefits. Only one insurer so far, Italy's INA, has done so. The gains in its share price have been astronomical.

In its most primitive form, insurance is an exercise in con*trolling risk. In bidding* expensively for foreign acquisitions, some European insurers seem to be taking on risks they might frown upon if undertaken by their clients.

· OBSERVER ·

High-level humility

■ Japanese premier Ryutaro Hashimoto caught practically everyone napping with his tax cuts, announced at 10.30am yesterday.

The once-mighty finance ministry had laboured through the night to turn Tuesday's budget proposals from the ruling Liberal Democrat party into practical plans. At 10am yesterday it had to start again. The Economic Planning Agency cancelled a press conference called to explain what was going on, as it no longer knew.

Eisuke Sakakibara – "Mr Yen" – the powerful minister for international economic relations, was wheeled out to illuminate the switch from a tight fiscal policy. It wasn't easy. Nine hours after the announcement, he wasn't entirely familiar with some of the numbers. "This is a political decision. I found out at 10.30," he admitted cheerfully.

Did he mind that the ministry was apparently not consulted? Did this smack of shambolic government? "We are just petty bureaucrats," said the man whose words can move markets. "We always follow the brilliant leadership of the government," he added with a huge grin. "The leadership of Mr Hashimoto this morning was brilliant."

The brilliant leader himself said he'd been inspired to the apparent U-turn while hob-nobbing with other Asian leaders in Kuala Lumpur over the last few days. He didn't explain exactly when the conversion occurred, but his plane from Kuala Lumpur did land late on Tuesday.

Sweetie

■ Malaysia's austerity package is breeding a siege mentality. Prime minister Mahathir Mohamad has complained that, despite economic hardship, people are plonking more than one spoonful of sugar into their coffee. "Why the need for two, three spoonfuls? One spoonful is enough," he protested.

Is this a new strategy to keep Malaysia out of the clutches of the International Monetary Fund? One spoonful a day keeps the IMF away.

Library booked

■ President Bill Clinton may be Arkansas' favourite son, but there appears to be a limit to the sacrifices the state capital Little Rock will make on his behalf.

Citizens objected to plans to raise the local tax on hotels and restaurants to help buy the site for his future presidential library, even if there was something appropriate about using the "hamburger tax" to honour the Big Mac-guzzling commander-in-chief.

The town board has now turned to the president's second favourite leisure pursuit: it's now going to use some of the money from a bond issue raised to improve the city's golf courses.

Lethal yawn

■ Nato has a new weapon against Russia. At Nato's joint council with Russia yesterday, US secretary of state Madeleine Albright told Russian counterpart Yevgeni Primakov her "overarching strategic objective" was that "Russia should ultimately become bored with Nato". Threats of mass destruction are out, tedium is in.

Togetherness

■ A handy little book has been published this week in France – *Alternance et Cohabitation Sous la Cinquième République* analyses "cohabitations" between French presidents and governments of different political complexions. It's timely, given the current tenure of centre-right president Jacques Chirac and centre-left premier Lionel Jospin. It's also rather courageous, given that the publisher is the state-owned Documentation Française.

The slimmish volume includes suggestions about how to cut the presidential term from seven to five years. As if this isn't a heavy enough hint, the author, lawyer and constitutional thinker Jean Massot, recalls that Chirac's icon General de Gaulle did not believe cohabitation would survive, and would have been "surprised and amused" that it was still around.

Ivory power

■ Vietnam's elephants aren't helping their chances. Numbers have fallen from 2,000 to 150 in 30 years of large-scale hunting, land-hunger and official dithering over conservation. Now a herd of about 30 has rampaged through Dong Nai province, destroying crops and trampling two people to death.

Officials are trying to come up with ways to keep humans and elephants apart, while villagers demand action, even if that means shooting the whole lot, cutting the country's elephant population by 20 per cent. It's a far cry from the days of the Vietnam war, when elephants carried arms and ammunition through the jungle. One was even awarded the country's top communist military honours. No-one's getting close enough to pin medals on the tuskers now.

The Financial Times

100 years ago

The Bulgarian Budget
Sofia, 17th Dec. In the course of the general debate on the Budget in the Sobranje to-day, the Minister of Finance stated that, in spite of the wholesale devastation caused by the recent floods, he was able to assure the House that the distribution of property and of the means of production were such that the country could bear the strain of these visitations. The Budget for 1898, he continued, showed an increase in the expenditure of 1,091,090f, which would be covered by the revenue derived from existing taxes.

50 years ago

Expansion In Nickel
Nickel sales are still expanding, and world deliveries of Canadian nickel in all forms for the year 1947 will be in excess of those of 1946, states Mr. Robert C. Stanley, chairman and president of the International Nickel Company of Canada, in his survey of the company's activities for the year. Mr. Stanley says Canadian nickel deliveries this year in all markets will approximate those of the industry's greatest peace-time year of 1937, and shipments in the United States and Canada will show an increase of about 50 per cent over 1937.

FINANCIAL TIMES
Thursday December 18 1997

Israeli dispute could blight Albright talks

By Judy Dempsey in Jerusalem

A bitter dispute between two senior Israeli cabinet ministers threatens to overshadow today's talks between Madeleine Albright, US secretary of state, and Benjamin Netanyahu, the Israeli prime minister.

The Paris talks were planned to establish a timetable for a second redeployment of Israeli troops from the West Bank. But Israeli officials said a breakthrough was unlikely, because the cabinet had not agreed the extent of Israel's "security interest sphere", *which will influence the size of* the area from which Israel will withdraw.

"We are not going to present maps to Albright," a senior Israeli official said. "Since there is no decision about the maps, we will not be discussing percentages of land."

Ariel Sharon, infrastructure minister, wants a 10-kilometre security zone east of Israel's pre-1967 borders and a 20-kilometre security zone along the western side of the Jordanian border. He believes Israel should have full sovereignty over the zones and also that all 144 Jewish settlements should be included in the security sphere.

Yitzhak Mordechai, defence minister, believes the security zones should be narrower. He has also suggested that 42 settlements should be excluded from the security sphere, a proposal that has angered the settlers, who have threatened to bring down the government.

Officials said Mr Netanyahu could use the settlers' threat to try to persuade Mrs Albright *to accept a limited redeploy*ment, although the US wants Israel to pass at least 13 per cent of land to full Palestinian control. Israel handed 2 per cent back to the Palestinians last March, but it was attacked as inadequate by the Palestinians. The Palestinians control 3 per cent of the West Bank.

Mr Netanyahu is likely to survive any attempt by the settlers to win support from the government's nationalist coalition partners. The Third Way, a coalition partner, said it was rallying support from the opposition Labour party to fend off the settlers' threats if the issues of security zones and a second redeployment were put to the vote.

If the zones and redeploy*ment were approved, a troop* pullback would not be implemented for a further six months. "We want the Palestinian Authority to fight terror," an Israeli official said, adding that Mr Netanyahu would present Mrs Albright with a list detailing how the Palestinians should combat terrorism.

The Palestinians have refrained from comment, waiting to see if Washington would exert pressure on Mr Netanyahu. During a visit to Israel this week, Stuart Eizenstat, US under-secretary of state of commerce and industry, urged Mr Netanyahu to move the peace process forward.

GM slows Thai expansion as Asian car sales collapse

By Ted Bardacke in Bangkok

General Motors is sharply reducing planned production at its new plant in Thailand and will lower its initial investment in the country by up to one-third because of the collapse in the south-east Asian vehicle market.

When the US vehicle manufacturer announced its intention 19 months ago to build a $750m Thai plant, it planned to produce up to 100,000 compact Opel cars for the Thai market and for export to the Asia-Pacific region. But Ron Frizzel, president of GM Thailand, said the company would now delay start-up by several months into 1999, produce only 40,000 cars annually and limit its investment to around $500m.

*"This is a deferral of invest*ment," said Mr Frizzel. "We are trying to be realistic [and] match capacity to demand." He said the plant could quickly be tooled up for more production when the market recovered and that GM expected the market "to be on the recovery slope when we bring the product to the market".

Vehicle sales in Thailand will be down 40 per cent this year and look set to fall to just over 200,000 next year, according to industry analysts.

Mr Frizzel said vehicle markets in other south-east Asian countries faced the same problems as Thailand, while the weak Japanese yen and the soft Australian dollar made exports to those countries difficult.

Some of the Japanese carmakers that dominate the south-east Asian vehicle market have stopped production intermittently or scaled back output in Thailand this year. *More capacity will come on* stream next May with the opening of a Ford-Mazda pick-up truck plant.

GM's Thai investment was to have been accompanied by another $250m from its global parts suppliers. Mr Frizzel said those suppliers remained committed to their Thai investments, although they would probably scale back as well if they could not attract other customers in the region.

Thailand's economic downturn was making the construction of a dealer network more difficult, Mr Frizzel said, although he believes GM will be able to woo some existing dealers of imported cars to GM. But he said the Thai government's recent decision to double the duty on imported cars was going to make it difficult to offer those dealers a full product line.

GM's production costs, particularly on labour and utilities, were likely to be substan*tially lower because of the* devaluation of the Thai baht. Savings would be partially diluted by higher prices for imported parts that GM had to source outside of Thailand.

Andersen partners seeking demerger

Continued from Page 1

merce are set out in the firms' constitutions. If the arbiter, who could take up to a year to rule, allows the breakaway, Andersen Consulting could have to pay compensation running into billions of dollars.

A demerger would mean Arthur Andersen dropping from being part of the biggest of the Big Six accountancy firms to being the smallest, if regulators allow planned mergers to go ahead. But Mr Wadia said yesterday he had a clear strategy for organic growth.

"Nothing will stop Arthur Andersen having a great future," he said.

Documents issued by Andersen Consulting paint a picture of conflict since the foundation of the two business units in 1989 and make allegations of unfair competition against its own sister firm.

"Whether or not market forces have driven this strategy for Arthur Andersen, it does not excuse the breach of our formal internal agreements," said Mr Shaheen.

Arthur Andersen was accused by its sister firm of planning a "dramatic expansion" in business consulting in areas such as business transformation and technology integration where Andersen Consulting was the market leader.

EU vets could call for ban on US meat imports

By Michael Smith in Brussels

European Union veterinary inspectors are warning they will recommend a ban on imports of US fresh meat and poultry unless US authorities improve methods for detecting "medicinal products and contaminants" in food from animals.

The threat, made in an unpublished report already sent to Washington, will raise *the temperature in a fast* growing dispute between the US and the EU over food safety. It comes less than a week after Washington restricted imports of European beef and lamb.

An EU ban on fresh meat would halt tens of millions of dollars of US exports. Although the EU already blocks the import of hormone-treated beef, it still buys about $35m of untreated beef a year from the US as well as substantial amounts of pork and poultry.

The EU report, drawn up by four senior inspectors follow*ing a 10-day US visit last* month, finds "very serious deficiencies" in the American programme to test for residues of antibiotic, antibacterial and other substances in live animals and animal products.

The inspectors found proportionately fewer animals were checked than in the EU and that they were subjected to significantly fewer substance tests. Some analytical performances were "completely inappropriate to meet EU standards". The report says that, unless improvements are made within six months, the EU's food and veterinary office "would have to recommend the suspension of at least fresh meat and poultry from the US".

The European Commission, the EU's executive, said yesterday it was for politicians to decide on a ban but they would "very *seriously*" take into account the views of the inspectors. Representatives of the US in Brussels said last night they were still studying the report and could make no comment on it.

The EU experts' findings highlight widely differing approaches to food safety. Brussels has adopted a more cautious and interventionist approach than Washington, especially since the outbreak of BSE.

This has caused several disputes. Earlier this year the World Trade Organisation found the EU broke world trade rules when it banned hormone-treated beef from the US. An appeal verdict is expected next month.

Letters, Page 10

THE LEX COLUMN

Cosy clinch

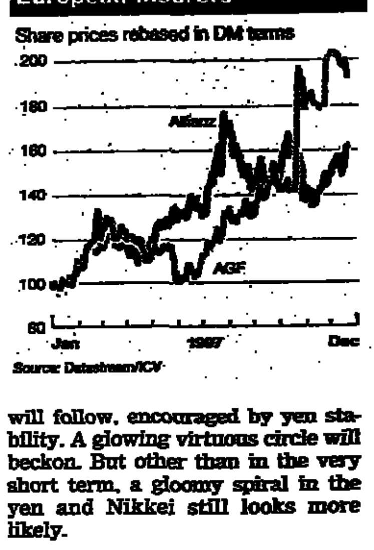
An ignominious ending to a rare French hostile bid is looming. While the details *remain murky, it seems* Allianz has struck a deal with rival bidder Generali over AGF to avoid a costly bidding war. This may be good for Allianz and Generali shareholders, but not AGF's. With an offer little above net asset value, Allianz will gain a majority stake in AGF cheaply; beefing up its presence outside Germany, particularly in industrial insurance and asset management. Generali's main consolation prize may be AGF's and Allianz's controlling stakes in German insurer AMB, at not much more than market value.

AGF shareholders have reason to cry foul. The French government's hostility may have influenced Gen*erali's withdrawal from the fray.* And its rival suitors seem also to have ended up suspiciously close. Furthermore, given the cosy relations between Allianz and AGF management under this sweetheart deal, real cost savings may never appear. Such a muddled outcome should be no surprise, given the French finance minister's worryingly dirigiste aim of only consolidating the sector in an "orderly and equitable way". Moreover, shielding companies from hostile takeovers removes a healthy incentive to restructure.

FTSE Eurotop 300 index
983.9 (+0.7)

European insurers

Share prices rebased in DM terms



Source: Datastream/ICV

Japan

Japan's latest efforts to revitalise its economy still look insufficient. But at least the government's assessment of the problem is finally catching up with reality. In the current climate of pessimism, the various tax cuts will not suffice to revive spirits. Consumers are as likely to save as spend a one-off tax fillip. But the climb-down by Ryutaro Hashimoto, the prime minister, from his previously implacable opposition to tax cuts does represent progress.

So too does the Bank of Japan's decision to support the yen in the currency markets. It shows recognition that Japan must stop the debilitating cycle of competitive devaluations in the region. Whether it will succeed is another matter. Without support from other central banks, it is unlikely to. Even then, yen support makes sense only if it plays with the economic grain. And a stronger yen does not appear in Japan's economic interests. The key probably lies with share prices. If *Japanese investors take the pack*age as a buying signal, foreigners will follow, encouraged by yen stability. A glowing virtuous circle will beckon. But other than in the very short term, a gloomy spiral in the yen and Nikkei still looks more likely.

Cookson Group

Spending nearly £3m to ease out a leader whose virtues had passed their sell-by date looks expensive. In Cookson's case it is money well spent. The one-off payment is part of the bill for reforming top management. This could save £2m a year and will create a conventional non-executive chairman/chief exec*utive structure. Remaining* senior executives are on two-year rolling contracts – not perfect, measured against Greenbury's one-year ideal, but no longer abnormal. A similar streamlining exercise can now be done for the group, unimpeded by sharp intakes of breath from the man who built it up.

Zeneca

Zeneca's $500m purchase of Ishihara's US fungicides business looks like a neat bargain. It plugs a gap in the UK group's fungicide portfolio, traditionally a weak area, and complements its recently launched Amistar product. And twice sales is an attractive price for a business with margins of 18 per cent, especially since Zeneca should be able to reap up to $30m of cost savings. Moreover, demand for modern agrochemicals is growing at 10-12 per cent a year, comparable to that for drugs.

The acquisition should weed out *any lingering doubts about Zeneca's* commitment to agrochemicals.

Though purists have argued for a demerger from the dominant pharmaceuticals side, there are good reasons to keep the two under one roof. New technologies, such as genetic engineering, are bringing the two industries closer together. And, as world number three behind Novartis and Monsanto, Zeneca has a much stronger market position in agrochemicals than it could hope to gain independently in pharmaceuticals.

The trick now will be to find similarly good deals for the drug division. Despite a flurry of recent product launches, Zeneca's research pipeline could do with some filling out for the millennium. That should be the management's next task.

Canada

Could Canada become the next target of the currency speculators? The notion seems faintly ridiculous. This, after all, is a G-7 economy, growing at a brisk 4 per cent with minimal inflation, reasonable unemployment and a federal budget surplus. It all sounds rather like its larger neighbour to the south.

But consider the following. Unlike the US, Canada has a significant exposure to metals, timber and other commodities whose prices and volumes have been hit by a slump in Asian demand. That is already depressing exports. Meanwhile, strong domestic demand has been sucking in imports. This has transformed last year's current account surplus into a deficit of nearly 3 per cent of gross domestic product, putting pressure on the currency. This, in turn, prompted the Bank of Canada into a 50 basis point increase in interest rates last Friday, to keep the Canadian dollar above 70 US cents.

The precedents are not encouraging. By pinning its colours to the mast, the central bank has given speculators a target to shoot at. The last time the central bank moved to defend the currency, in 1994/95, it had to raise interest rates by 200 basis points in a matter of months, choking consumer spending and thus domestic growth. With luck, the Bank of Canada will not have to act as aggressively this time. But given the chance of further interest rate increases and the uncertain impact from Asia, neither Canadian bonds nor the stock market look very attractive at the moment.

See additional Lex comment on Coats Viyella, Page 19

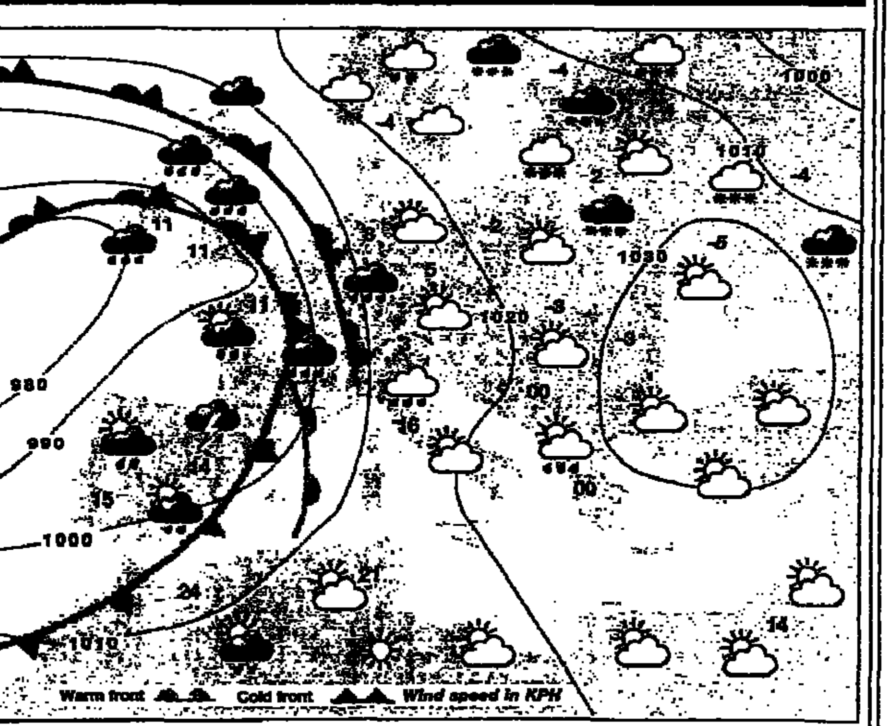
FT WEATHER GUIDE

Europe today

Much of Scandinavia will be dry, but some northern parts will have snow, as will Finland and the Baltic states. Eastern Europe will stay dry but remain sub zero. South-eastern Europe and the eastern Mediterranean will have early rain, *with spells of sunshine and* scattered showers later, but the northern Balkans may have some snow later. North-western parts of Europe will be wet and any remaining snow will turn to rain. The Alps will have some heavy snowfalls. France and the Iberian peninsula will have heavy rain, but it should clear to brighter, showery conditions *later*.

Five-day forecast

The west and north-west of Europe will stay mild, unsettled and often windy, with a series of Atlantic fronts bringing rain at times. The Mediterranean will also have rain and some thunderstorms. Eastern *Europe and Scandinavia will be dry*, but snow will return, to be followed by more snow by the weekend.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	Sun 7	Cardiff	Fair 11	Frankfurt	Cloudy 4	Madrid	Rain 14	Rangoon	Fair 33
		Belfast	Rain 10	Casablanca	Thunder 22	Geneva	Rain 6	Majorca	Cloudy 21	Reykjavik	Fair 6
Abu Dhabi	Sun 24	Belgrade	Fair 34	Chicago	Sun 7	Gibraltar	Shower 18	Malta	Fair 20	Rio	Rain 24
Accra	Sun 31	Berlin	Sun -2	Cologne	Fair 8	Glasgow	Cloudy 9	Manchester	Rain 10	Rome	Fair 16
Algiers	Fair 24	Bermuda	Shower 23	Dakar	Sun 26	Hamburg	Fair 1	Manila	Fair 30	S. Frsco	Fair 13
Amsterdam	Rain 8	Bogota	Fair 20	Dallas	Sun 20	Helsinki	Sleet 2	Melbourne	Fair 23	Seoul	Fair 9
Athens	Shower 9	Bombay	Fair 32	Delhi	Fair 19	Hong Kong	Shower 24	Mexico City	Sun 20	Singapore	Thunder 30
Atlanta	Sun 18	Brussels	Rain 5	Dubai	Fair 25	Honolulu	Fair 28	Miami	Fair 23	Stockholm	Fair 1
B. Aires	Fair 27	Budapest	Fair -2	Dublin	Fair 11	Istanbul	Rain 4	Milan	Rain 6	Strasbourg	Shower 4
B.ham	Rain 10	C.hagen	Fair 1	Dubrovnik	Shower 12	Jakarta	Thunder 32	Montreal	Snow -5	Sydney	Fair 32
Bangkok	Fair 35	Cairo	Fair 20	Edinburgh	Rain 9	Jersey	Fair 13	Moscow	Snow -4	Tangier	Shower 20
Barcelona	Rain 19	Caracas	Fair 30	Faro	Shower 18	Johannesburg	Fair 25	Munich	Cloudy 3	Tel Aviv	Fair 19
						Karachi	Sun 27	Nairobi	Thunder 24	Tokyo	Shower 15
						Kuwait	Fair 22	Naples	Fair 17	Toronto	Fair 4
						L. Angeles	Sun 16	Nassau	Fair 24	Vancouver	Shower 5
						Las Palmas	Cloudy 26	New York	Sun 6	Venice	Rain 8
						Lima	Fair 28	Nice	Rain 13	Vienna	Snow -2
						Lisbon	Shower 15	Nicosia	Fair 16	Warsaw	Sun -4
						London	Rain 11	Oslo	Fair -1	Washington	Sun 9
						Lux.bourg	Rain 5	Paris	Rain 11	Wellington	Shower 19
						Lyon	Shower 12	Perth	Sun 30	Winnipeg	Cloudy -2
						Madeira	Shower 21	Prague	Cloudy -3	Zurich	Shower 3

هكذا من الأصل

SCOTLAND

A nation prepares for devolution

Pages 3-5

CHESHIRE

Challenges and warnings among the successes

Pages 7

REPORTING BRITAIN

EU REGIONAL AID

Interview with the man in the hot seat

Page 2

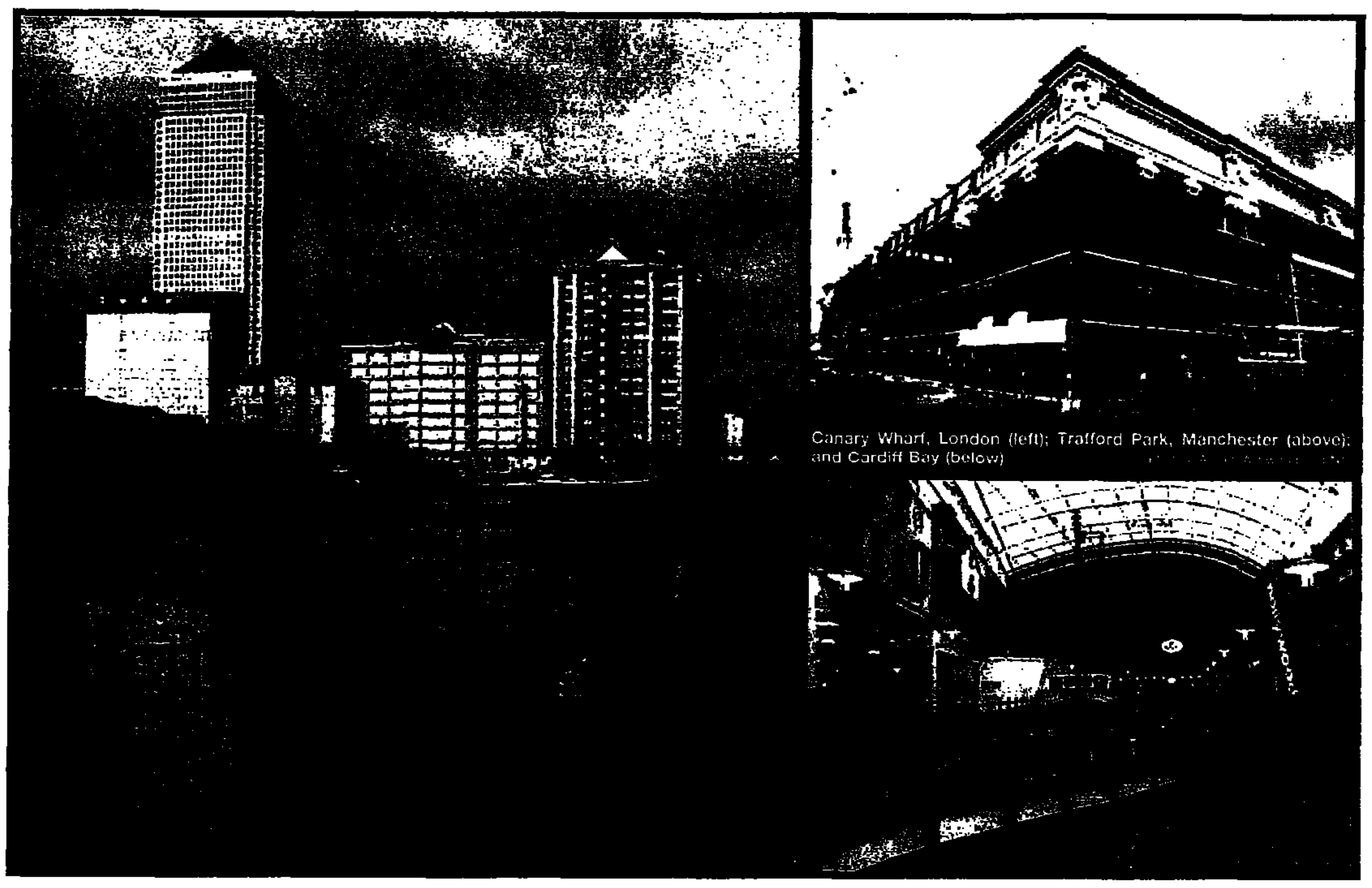
INWARD INVESTMENT

Wales now has a strong components industry

Page 8

Bodies established to oversee urban development in the UK attracted waves of criticism. But time has been a great healer, says **Alan Pike**

UDCs prepare to sign off with much to show



Canary Wharf, London (left); Trafford Park, Manchester (above); and Cardiff Bay (below)

Crudely painted slogans proclaiming "Undemocratic Urban Development Corporation: Out" are seldom seen on inner city walls nowadays. Most of the walls were reduced to rubble as the UDCs executed their mandate to transform the old industrial heartlands.

But time has also demolished much of the hostility that once prompted the slogan painters. Political tensions in the origins of UDCs, now in their final months of life, meant they were never likely to become the most loved of public institutions; but many are signing off having earned considerable respect.

UDCs were set up in four stages between 1981 and 1993. The early corporations faced frequent denunciation as "unaccountable, unelected quangos". Councils were forced to yield development control powers over large areas of the inner cities to them – inevitably implicating UDCs as agents of the Thatcher government in its frequent battles with local authorities.

Since then, experience has taught lessons to both the UDCs and their detractors. Even the most unapologetic supporters of the decision to establish development corporations acknowledge that initial mistakes were sometimes made; that there was too much faith in the one-dimensional powers of property-led, physical regeneration; and insufficient appreciation of the complexities of rebuilding human communities.

Among the ranks of critics, meanwhile, there is recognition that the UDCs have reshaped and revived huge swathes of derelict inner city land on physical and time scales that are both impressive. Lessons pointing to the need for a rounded approach to regeneration are being heeded – this month's white paper (government policy document) setting out proposals for nine new English regional development agencies (RDAs) in 1999 commits the government to "the integration of economic, social, environmental and democratic elements" of the process.

The unaccountable, unelected quangos of the early 1980s look less alien and fearsome in the more collaborative late 1990s. Today's typical UDC board, with private sector members sitting alongside councillors and representatives of other community interests, is a model of the partnership style that is now regarded as essential for achieving successful regeneration. "Business-led" was hurled at the early UDCs as a term of abuse; when a Labour government now uses the same phrase to describe its RDAs, it provokes no controversy.

UDCs were from the start intended to have a limited life. Three – Leeds, Bristol and Central Manchester – have already been wound up and the remainder of the English ones go in March. Currently in the process of producing their final annual reports, the word achievement occurs frequently as the UDCs abandon modesty to review their activities and pass judgment on themselves.

Measured by landscape transformed alone, the term is justified. The 13 English and Welsh corporations have been involved in the regeneration of some 17,000 hectares of land.

As an illustration of what this actually means, Cardiff Bay Development Corporation has been responsible for reshaping around one-sixth of the Welsh capital. Its mission statement is as big as its development area: "To put Cardiff on the international map as a superlative maritime city which will stand comparison with any such city in the world."

Much as they have been involved in small business start-ups, training, and community activities, the large-scale thinking and grand projects suggested by the Cardiff Bay mission statement are the impression that UDCs are most likely to leave on the public memory. There are few corporations that do not have striking flagship schemes to accompany all the more routine road, office and home building that they have overseen.

Again, taking a single illustration – Merseyside Development Corporation's staging of the 1984 international garden festival in Liverpool involved one of Europe's biggest ever land reclamation schemes; the corporation's famous Albert Dock development, where the northern Tate Gallery is now housed, involved the renovation of Britain's largest single group of Grade 1 listed buildings.

By last year, the 12 English UDCs had, according to government calculations, attracted more than £12bn of private sector investment in return for £3.5bn of public sector grant. They are also credited with having created some 187,000 jobs – around 72,000 people now work in London's former docklands, compared with 27,000 in 1981, although argument over the extent to which the immediate locality has benefited will continue long after the London Docklands Development Corporation (LDDC) has been abolished.

LDDC, biggest of the UDCs and one of the first, initially met fierce local opposition. Activists in a part of London renowned for its deep community traditions, abused it for building riverside homes that local families could not afford, and for importing financial services jobs for which they were unqualified. In the early 1980s, relationships between the LDDC and Labour controlled docklands local authorities were close to non-existent.

Today, as the emphasis has shifted from confrontation to collaboration, Labour councillor Conor McAuley, deputy leader of Newham council and an LDDC board member since 1991, concludes: "A balance sheet of the LDDC's contribution to the area would be a complex one to prepare, but it would show that it has been beneficial.

"The LDDC has been through several regimes since 1981. In the early days, it seemed to almost revel in creating friction. Now it is much closer to the community and the local authorities. Basically, I believe it has been a success. It was resourced to do its job to an extent that the local councils would never have been, and was able to focus single-mindedly on regeneration."

Relationships have improved to the point where Newham councillors are concerned that they may be losing the LDDC too soon. The corporation's regeneration of the former Royal Docks is still coming to fruition, and councillors are unsure whether English Partnerships – designated to take over the LDDC's role in the project – will be able to offer the same expertise.

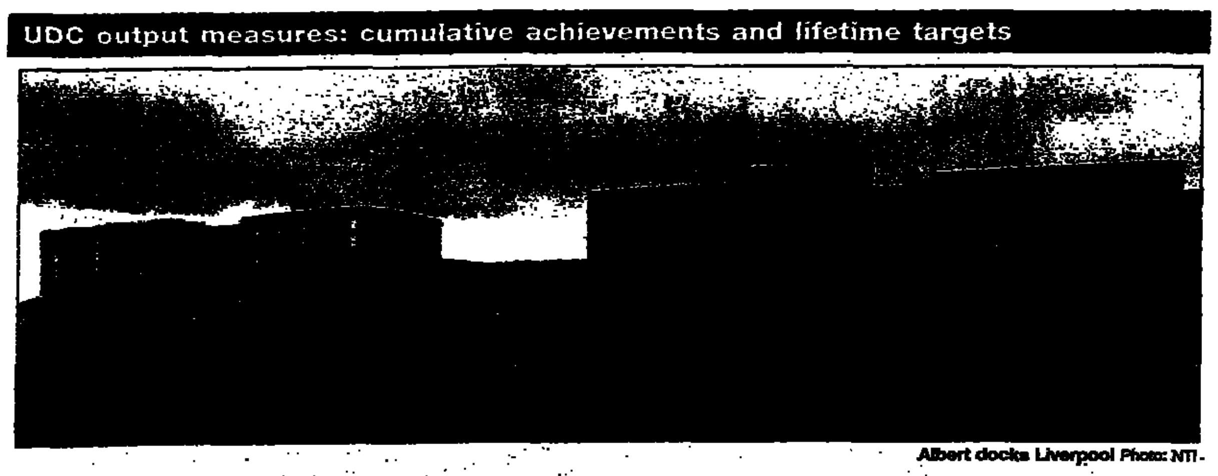
Prof Patsy Healey, director of the European urban environment research centre at Newcastle University, is – as well as a specialist in the issues with which the UDCs have been involved – a board member of Tyne and Wear Development Corporation. She, too, takes a positive view.

"We must remember the terms in which UDCs were set up – their role was to undertake a physical transformation. But the Tyne and Wear corporation quickly and successfully linked this physical transformation to wider economic development and social issues.

"The need to take such an integrated approach is becoming more widely recognised. I hope the RDAs and other successors to the UDCs will carry it forward, setting an overall, regional strategic direction into which regeneration initiatives can fit. The private sector, as well as the public, now recognises the importance of such a strategic approach."

In March, English UDCs will transfer any remaining assets and liabilities to the Commission for the New Towns – an apt choice, since they are themselves successors to the post-war new town development corporations. And, as with the new towns, a final assessment of the UDCs' unignorable contribution to reshaping some of the biggest cities must await the judgment of future generations.

UDC output measures: cumulative achievements and lifetime targets



Albert docks Liverpool Photo: NTI

	Land reclaimed (ha)		Housing units		Non-housing Floorspace (000m)		Infrastructure Roads (km)		Jobs (gross)		Private Investment (£m)		Grant-in-aid
	To 31/3/96	Lifetime target	To 31/3/96	Lifetime target	To 31/3/95	Lifetime target	To 31/3/96	Lifetime target	To 31/3/96	Lifetime target	To 31/3/95	Lifetime target	Lifetime
London Docklands	728.4	846.5	19,844	24,036	2,283.9	2,326.8	244.7	284.5	66,683	75,458	6,277.5	7,073.0	1,860.3
Merseyside	383.2	384.0	2,875	3,544	555.0	755.0	84.0	100.0	16,595	23,357	461.0	684.0	385.3
Black Country	314.7	400.6	2,914	3,774	826.4	1,096.7	28.3	38.6	15,517	21,440	833.0	1,150.0	357.7
Teesside	434.4	525.3	1,187	1,403	362.2	470.2	26.1	28.7	10,086	10,212	928.9	1,090.3	350.5
Trafford Park	151.7	210.8	283	311	572.1	761.3	37.5	52.6	21,063	25,618	1,012.8	1,560.5	223.7
Tyne & Wear	485.7	517.7	3,639	4,842	844.5	1,146.2	33.2	42.0	23,473	34,043	937.3	1,260.5	339.3
Bristol	69.0	60.0	676	661	121.0	114.5	6.6	6.3	4,825	4,590	235.0	225.0	78.9
Central Manchester	35.0	35.3	2,583	2,581	138.6	144.4	2.2	2.1	4,944	5,074	372.6	375.8	82.2
Leeds	68.0	68.0	571	561	374.0	366.0	11.6	11.4	9,066	8,369	357.0	333.0	55.7
Sheffield	239.8	259.6	0	0	358.2	518.2	12.7	15.0	12,747	17,616	577.2	694.7	101.0
Birmingham Heartlands	75.6	129.1	603	878	165.2	365.9	19.9	37.7	2,253	5,983	174.7	312.2	39.7
Plymouth	10.8	12.7	0	93	3.0	16.6	4.4	5.0	25	491	0.5	19.2	44.5
Total	2,976.3	3,449.6	35,175	42,684	6,604.1	8,081.8	511.2	623.9	187,277	232,251	12,167.7	14,778.2	3,919.0

Cardiff Bay Development Corporation in Wales will continue handling projects until 2000. It has so far attracted £880m private investment, with combined public investment of £499m from CBDC and Cardiff council

Source: DETR

Opinion

Eneko Landaburu: 'Britain has a good administration, one of the best in my field. It has been helpful to us advising about value-for-money concepts'

Regional aid buck stops here

Brian Groom meets Eneko Landaburu, the man occupying one of the European Union's most powerful jobs and who is responsible for a large slice of the EU's budget

Eneko Landaburu, from Spain's Basque country, occupies one of the hottest seats in the European Union. As director-general for regional policy and cohesion, he is responsible for tightening up regional aid as the EU prepares to admit new members from eastern Europe early in the next decade.

It is a powerful role. The structural funds increased dramatically three years ago and now take one-third of the EU's budget. Under the Maastricht treaty, "cohesion" – the narrowing of economic disparities – has equal priority with monetary union and the internal market.

The European Commission, in its Agenda 2000 budget plan, proposes to maintain structural spending at 0.46 per cent of the EU's gross domestic product. This will provide Ecu275bn between 2000 and 2006, of which Ecu45bn is earmarked for new member-states.

"Someone has to pay for that," says Mr Landaburu. The commission plans to cut the proportion of population covered by the regional funds from 51 per cent to between 35 per cent and 40 per cent.

"This is not just because we have an enlargement, but also because we think it more efficient to concentrate funds on the poorest people. It's in line with the policy on competition, that we reduce state aids."

There will be losers – a source of intense concern in the regions. The cash finances things like roads, bridges, telephone lines, training schemes, help for small businesses, and environmental protection. Countries must provide matching finance, which creates substantial investment.

The proportion of population covered by Objective 1 – the highest category, accounting for two-thirds of the budget – would fall from 26 per cent to 20 per cent.

To qualify, regions must have GDP no higher than 75 per cent of the EU average, a threshold that would be strictly applied, unlike in the past.

The result, according to Mr Landaburu, is that Northern Ireland and the Scottish Highlands and Islands are likely to be among 11 European regions in which Objective 1 status would be phased out. Merseyside would keep it, while South Yorkshire is likely to qualify for the first time. Cornwall is likely to be rejected as too small to qualify – a judgment the county is reluctant to accept. It is pressing to be redesignated.

These likely outcomes are based on provisional data; definitive ones are due early next year. The political battle over who will qualify is expected to continue up to the Vienna summit at the end of 1998.

For Britain, the new Objective 2, covering areas of industrial decline and rural and urban deprivation, is even more important. In the equivalent categories of the current scheme, covering 1994-1999, 24 areas are receiving a total of £3.6bn – more than double what the UK gets under Objective 1.

"The UK, like other countries, will have a reduction in population covered by Objective 2," says Mr Landaburu. "It's difficult to say how much. The result will depend on the criteria. We want to take more account of unemployment."

UK regions fear they will lose out because the International Labour Organisation joblessness figures which the commission uses put UK unemployment three or four points below the EU average, and because the heaviest British job losses, back in the 1980s may be too long ago to count now.

"It seems to me difficult to change the ILO criteria because there is no alternative acceptable to everybody in the union," says Mr Landaburu.

"We want to decide the areas through a partnership process with member-states, taking specific situations into account. One idea could be to fix a global figure for coverage of a country's population and within this to say we want to discuss the list with you on condition that priority is given to the worst areas, those much affected by unemployment and deprivation.

"At the same time, we must be vigilant. In some countries there may be pressure to include regions for political reasons. We must not have a political list."

Mr Landaburu says Britain's moves towards greater regional government are "in line with what we support. We believe that we need to have a better democracy in Europe, that to strengthen the political level of regions is a good thing, depending on the willingness of each member-state."

That allows local and regional authorities to have a stronger role in implementing EU programmes. Eventually, he wants to hold strategic discussions with regions and to devolve responsibility for implementing EU programmes, including controls and sanctions, to regional level.

But is the regional policy working? GDP per head in Europe's 10 richest regions is 4.5 times that of the 10 poorest, a gap which Mr Landaburu concedes has not been reduced. Neither has unemployment come down in the poorest regions.

"At the same time," he says, "if we take the poorest countries we have had success. Ten years ago, the four poorest – Greece, Ireland, Portugal and Spain – were at 66 per cent of average GDP. By 1996, the same four were at 74 per cent. This is a spectacular result. The regional policy has been a tool of real convergence."

It works in Britain, too, he believes. "There is impressive use of the money in places such as Merseyside, Wales and Strathclyde, giving them a new hope for the future. It's not only the structural fund money, we are always co-financing and this has been very positive.

"Britain has a good administration, one of the best in my field. It has been helpful to us advising about value for money concepts that I am applying in other countries."

The future thrust of EU policy will, he stresses, be on job creation. "It's not easy. You need a good level of environment, infrastructure and education.

"The commission's proposals allow us to finance the new member-states, maintain a global amount of money for the poorest regions, and the price to pay for these things is well balanced. We are still involved in the weakest regions in the richest countries: it is important for us not to be only in the poorest countries. There is something for everybody."

VIEWPOINT • BY BRIAN GROOM

Regions will need to push for power

The regional development agencies will provide a slow route to elected assemblies. Scotland has shown how to emerge with a coherent plan

Politicians, business people and economic development pointy-heads in England's regions should already be planning their new year resolutions. They must decide where they want their future to lie, and go for it. No one else will do it for them.

Ministers argue that more has already been done than ever before to decentralise Britain. A parliament for Scotland and an assembly for Wales are on the way, as is a city authority for the capital if Londoners vote "Yes" in a referendum next May. The government is loosening the straightjacket on local councils, and has unveiled plans for nine development agencies for the English regions.

Just so. The last of these, however, are something of a come-on. The proposals that have emerged from prolonged cabinet turf wars are so limited that the RDAs' powers will have to be beefed up quickly after their inception for them to have a chance of success, let alone create momentum towards elected assemblies.

Pressure for greater powers is going to have to come from the regions. Whitehall has exhausted itself in reducing the plans to the lowest common denominator. Regional leaders are, however, going to have to improve the quality of debate.

Giles Radice, chairman of the House of Commons treasury committee, said before his MPs began grilling officials on the Barnett formula, which apportions changes in spending around the UK, that their questions were not part of a "backlash" against Scottish and Welsh devolution.

Whatever their individual merits, the rows over Barnett and over alleged poaching of inward investments are, more accurately, part of an incoherent cry of recognition from the English regions that Scottish and Welsh devolution poses a challenge for which they are not prepared.

The argument over inward investment encapsulates it. Do the English regions want Scottish Enterprise and the Welsh Development Agency held so firmly in check that even the comparatively feeble RDAs will be able to compete with them (an unrealistic prospect), or would they rather create agencies powerful enough to match the success of the Scots and Welsh?

The advantages the Scottish and Welsh agencies enjoy go far beyond the ability to produce larger grants from their bigger national budgets. Bob Downes, Scottish business director at Scottish Enterprise, gave the Commons environment, transport and regional affairs select committee an account of the benefits of having a single agency in charge of economic development and training.

Scotland's entire strategy has been built on that, at national and local level. The two are inextricably linked. It is difficult, for instance, to build clusters of companies in particular sectors without providing and developing the skills that lie at the heart of those industries.

Yet the RDAs, which will have to prepare economic strategies for England's regions, including their skills needs, will not have direct control over the 74 training and enterprise councils. This remains with the department for education and employment. The only main areas over which the RDAs will have direct control are social and physical regeneration, and regional co-ordination of inward investment (even then the trade department will make decisions on regional selective assistance). In nearly every other area, the RDAs will have to work by persuading local authorities and other departments.

For those who want to see elected assemblies in their regions, the RDAs will provide a slow route. In north-east England there is talk of creating a constitutional convention to press for devolution, like the one which was ultimately successful in Scotland. The lesson is that they should start now.

There were gaps in the consensus created by the Scottish convention: the Conservatives shunned it, the Scottish National party pulled out early, and while small business was represented, the big battalions were absent. But by going with the grain of Scottish opinion, the convention – which mainly comprised Labour and Liberal Democrat politicians, church people and trade unionists – produced a scheme which has been adopted largely intact.

By that method, Scotland emerged with a plan for a parliament which is more coherent, more powerful and better supported than the assembly planned for Wales. It came from below, not by government decree. England's regions should take heed of that.

brian.groom@FT.com

REPORTING BRITAIN No 3

Reporting Britain, the FT's regular report on developments in Britain's regions will next appear on February 19, and then on the third Thursday of each month, with the exception of August and January. Each issue will contain a focus on one or more regions, in which economic, industrial, political and social developments will be analysed. New urban regeneration initiatives and the latest inward investment trends will also be featured, together with case studies and profiles of prominent schemes and individuals. The February issue will include special focuses on: Transport and the regions; Manchester; Cumbria; urban renewal and inward investment.

Comments on this issue, or ideas for future issues, are welcome and should be sent to The Editor, Reporting Britain, Surveys Department, Financial Times, Number One Southwark Bridge, London SE1 9HL. Fax: +44 (0)171 873 3197.

e-mail: ft.surveys@ft.com

■ IN THIS SURVEY

Scotland
Overview: The public mood is becoming less acrimonious..... Page 3
The economy: There's a lack of statistical data..... Page 3
Finance: Strong performers and their wobbly cousins..... Page 4
Devolution: Little energy has been devoted to the study of policy Page 4
Education: A dash for the right ticket ..... Page 4
Profile: Gus Macdonald, chairman and managing director of Scottish Media..... Page 4
Industry: Electronics lead from the Glen..... Page 5
Glasgow: Looking to a brighter future..... Page 5
The Highlands and Islands: It's getting tougher at the edges... Page 5
Profile: Ian Robinson, chief executive of Scottish Power..... Page 5

Statistics: Comparing the regions ..... Page 6
Urban regeneration: Railtrack decides that wood is good after all..... Page 6

Cheshire
Overview: Challenges and warnings... Page 7
Local government: Change likely to prove expensive..... Page 7
Business and financial services: Quality of life is a key factor... Page 7
Inward investment
Wales: Car components replace traditional coal and steel industries..... Page 8
Merseyside: Smaller businesses find a saviour fund..... Page 8

■ SURVEYS PROGRAMME AND INDEX

For details of other forthcoming surveys or a list of past surveys, call the FT Fax-U-Back service.
Forthcoming surveys programme: +44 (0)990 209 908.
Past surveys index: +44 (0)990 209 907

Technical note: Ensure your fax is in polling mode. Users with a handset on their fax machine should dial the Fax-U-Back number and press Start when instructed. Otherwise, dial direct from the fax keyboard, then key Start. In the event of problems call +44 (0)171 873 4378

■ EDITORIAL PRODUCTION

FT Surveys Editor: Rhys David
Production Editor: Ian MacDonald
Design: Philip Hunt
Graphics: Bob Hutchison, Ian Fullwood

■ ADVERTISING

For details of advertisement rates please contact
Ruth Swanston
Tel: +44 (0)171 873 4281
Fax: +44 (0)171 873 4862
E-mail ruth.swanston@ft.com

Scotland

Mood is becoming less acrimonious

A change of government and a poll on devolution have helped to put a spring in the nation's step, writes James Buxton

There has a been a spring in Scotland's step since the general election in May. The coming to power of a Labour government means that Scots are now being ruled by a party which about half of them voted for instead of by one backed only by a minority.

A few months later came the September referendum on devolution, in which there was a powerful majority for setting up a Scottish parliament and a convincing vote for it having tax-raising powers.

The two events have produced a more relaxed and less acrimonious popular mood. The European Commission's index of consumer sentiment shows that in the second half of this year people in Scotland have become more confident, against a slight downward trend in the UK as a whole.

The Scots disposed brutally of the Conservatives at the general election, depriving them of their remaining Scottish seats. In the referendum they demolished the theory – dear to opponents of devolution – that constitutional change was only really wanted by a minority of zealots.

The Conservatives deserve much of the blame for the fact that constitutional relations between Scotland and England are to undergo their biggest change since the Act of Union of 1707. The Tories used their UK majority to introduce policies in Scotland opposed by most of its population.

The Tories' trampling over Scottish values came as the ties that have bound England and Scotland were continuing to diminish as the British empire in which the Scots and the English collaborated faded further into memory, and the British state – run from London – became more intrusive.

Yet the Conservatives presided over a transformation of the Scottish economy. They allowed heavy industries such as steel and shipbuilding to decline, and encouraged their replacement by a manufacturing base dominated by the electronics plants of foreign companies.

In the 1990s, Scottish companies reversed the pattern by which they were the victims of stronger English rivals in takeover battles. Now companies from north of the border such as Stagecoach (public transport), Scottish Power (energy), Scottish & Newcastle (brewing), Johnston Press (regional newspaper publishing) and Stakis (hotels and casinos) are expanding on the UK corporate stage.

Unemployment in Scotland dropped below the UK average during the last recession for the first time since records began in the 1920s. It is now about 6 per cent, only slightly above the UK average. Scotland's GDP per head, which likewise had long lagged far behind the UK average, reached nearly 99 per cent of it in 1994.

The new Labour administration has been happy to inherit a modernised economy. Alastair Darling, the Edinburgh MP who is chief secretary to the treasury, said recently: "Scotland is a country that is no longer afraid of change."

Yet apart from the new mood and the promise of constitutional novelties, the new Scottish Office team led by Donald Dewar has not made big changes. In its budget plans for next year, Mr Dewar intends to spend a little more on education, keep local government on a tight rein, and reduce the budget of Scottish Enterprise, the development body.

But Brian Wilson, the education minister, shows no sense of urgency in addressing the problems of bad schools and poor teaching, while his decisions on implementing student tuition fees are having a disruptive effect on the Scottish universities.

Yet the dominant Scottish Labour party is changing, although its strongholds in Glasgow and Paisley are tainted with sleaze. Senior figures in local government now talk with conviction of the benefits of using private finance to restore crumbling public property.

Mr Dewar can be excused preoccupation with devolution as he presides over the drafting of the bill to establish the Scottish parliament, which should be ready before Christmas. The legislation should become law by the autumn, with elections to the new body taking place in early 1999 and the parliament getting into action by 2000.

The implications of disentangling England and Scotland are beginning to sink in on both sides of the border, and there have been signs of an anti-Scotland backlash as long-standing arrangements come under public scrutiny.

In October, George Russell, chairman of the Northern Development Company, attacked Scotland for being funded too generously and gaining an unduly large proportion of inward investment.

That prompted the House of Commons treasury select committee to examine the Barnett formula under which Scotland's share of UK public expenditure is calculated. It gives Scotland a fixed percentage of changes in the spending of comparable UK government departments.

The mechanism was set up in 1978 so that the question of Scotland's share of public spending should not always be an issue, and had the aim of eventually achieving convergence between expenditure per head in Scotland and that of England.

But Scotland still received 25 per cent more identifiable expenditure per head than England in 1995-96. The formula was applied to a higher base of public spending, reflecting Scotland's greater number of hospitals and universities per capita, the extra costs of far-flung communities and the poorer health of many of its people.

When it was introduced an assessment of Scotland's needs showed that expenditure 16 per cent higher than England was justified, though the starting level for actual spending was set higher at 22 per cent. It is not clear why the Barnett mechanism has not brought about convergence.

But many MPs and economists believe there should now be a new review of Scotland's spending needs. Though this could result in a cut in Scotland's £14.5bn budget – possibly of as much as £1.5bn – it would be a harsh UK government that did not phase it in gently.

But Mr Dewar has rejected holding a needs assessment until the parliament is set up, which means that the new assembly could be plunged into dispute with London at an early stage.

Meanwhile, Margaret Beckett, the trade and industry secretary, is trying to set UK-wide limits to how much extra help development agencies can give to inward investors, in addition to regional selective assistance.

This is seen in Scotland as a challenge to Locate in Scotland, which regularly wins about 18 per cent of all the UK's inward investment and had a record year in 1996-97 gaining projects worth £3.1bn. But much of its success is due to its long experience and efficiency, and it may even benefit from new rules being applied to new regional development bodies.

Is Scotland really changing as the parliament approaches? Recently, Giles Gordon, the Scots-born literary agent who moved back to Edinburgh from London a few years ago, complained in The Scotsman newspaper about "our national inferiority complex, our desperate desire not to step out of line", and placid acceptance of the second rate. He implied that would not change under devolution.

But Gus Macdonald, chairman of Scottish Media and one of the most successful Scots of his generation, takes a different view. "The Scottish parliament will bring more self-confidence. I think the whinge factor will decline substantially and we will be less inclined to blame others for our problems."

Fishing is still important to towns such as Oban Photo: Ashley Ashwood

THE ECONOMY

Time to bring out the numbers

Richard Adams runs into a statistical blind alley as he checks on Scotland's health

A lack of useful and timely statistics makes it difficult to know how Scotland's economy is performing.

Scotland's problem is that most of its economic figures are lumped together with aggregate UK statistics. Working out separate figures for Scotland's gross domestic product, rate of inflation or retail spending is time-consuming and difficult. Now, in the wake of September's referendum to devolve powers to its own parliament, the need for a proper set of Scottish statistics is pressing.

Jeremy Peat, the Royal Bank of Scotland's chief economist, says the Scottish Office has made an effort to enhance the data available. But, he says, there remain a lacunae in the data that should be filed.

"In order for the Scottish parliament to fulfil its powers effectively, it will require improved analysis and an increased need for better microsets of data," Mr Peat says. The new assembly will need figures to be able to act as a lobby for Scotland in dealing with national and European Union institutions. "I would expect the Scottish parliament to debate Scottish interests in macroeconomic policy, Mr Peat says.

One long-standing Scottish grievance is that the country is unfairly penalised by tight monetary policies for the greater inflationary pressures of southern England. What figures are available suggest the country does not deserve the higher level of interest rates being applied by the Bank of England.

The proportion of the workforce unemployed and claiming benefits is 6 per cent in Scotland, compared with the UK's average of 5.2 per cent. Excluding the burgeoning electronics sector, Scottish manufacturing is underperforming compared with the rest of the UK, while the Royal Bank of Scotland's recently-established housing index shows the rate of price rises in Scotland to be around half the rate in south-east England.

Unfortunately for Scotland, having a Scot as the UK's chancellor of the exchequer has been no help. Gordon Brown ceded control over interest rates to a London-based Monetary Policy Committee (MPC), with one member from the Netherlands and another from the US, but none from Scotland.

"The Bank of England's regional agents do what they can to provide regional input, but that input is very limited," Mr Peat says. The assembly will have the power to meet the MPC and to express views on European economic and monetary union (Emu), fiscal and monetary policy. But to make a bigger impact it will need to be armed with relevant Scottish economic data.

Most current indicators suggest Scotland's economy is performing well, if not running as fast as some other parts of the UK. The Royal Bank of Scotland's forecast for 1997 GDP is for an increase of 3 per cent, while the Treasury estimates that UK GDP will rise by 3.75 per cent in the same period.

Oil and gas production continues to be a significant sector, with the number of fields in operation at its highest point and output rising. The service sector, with strong performances in financial services and tourism, is also growing. But Scotland's most dramatic success story has been in the electronics industry: the West Lothian region, where most of the electronics industry is based, is poised to surpass Aberdeen, the wealthiest area in Scotland thanks to the oil industry, in terms of growth.

Heavy foreign direct investment in electronics has allowed Scottish exports to continue rising at a time when many other UK sectors have been suffering from the effects of strong sterling. Electronics now account for about half of all Scotland's exports.

Other exporting sectors have not been so fortunate. Exports of whisky suffered a hangover from the strength of sterling, although overseas sales have risen by 50 per cent in the last decade. Agriculture remains a more important sector in Scotland than most of the rest of the UK, with cattle farming hit hard by worldwide bans on British beef caused by BSE, "mad cow" disease.

However, only 4,000 of Scotland's 70,000 registered businesses export goods or services outside the UK. Scotland's most important export market is across its southern border. How the result of a referendum to set up a Scottish parliament will affect that relationship remains to be seen.

Last month Alastair Balfour, managing director of the Insider Group, warned that economic nationalism could provoke a backlash against Scottish companies. "Devolution is a process accompanied by strong emotions, and it would be unfortunate if the positive aspects were outweighed by negative sentiment elsewhere," Mr Balfour said.

Cambridge Econometrics, an independent consultancy, said that while Edinburgh may gain from devolution, the rest of Scotland was less likely to receive any significant boost. Research by Grimley, the international property advisers, found that Edinburgh was expecting significant demand for office space as a result. "However, there is only 4,000 square metres of modern open-plan accomodation currently available within the capital.

But another think-tank, the Fraser of Allander Institute, based at Strathclyde University, said devolution would benefit Scotland even if the new body used its powers to raise personal income tax by 3 per cent – if workers did not bid up their wages above the rest of the UK labour market to compensate for the rise.

The new executive will have to deal with the complex issue of the level of central government funding for Scotland. Figures published by the Scottish Office show a fiscal deficit of £7.4bn for the last financial year. Total government expenditure in 1995-96 was £31bn, 10 per cent of the UK spending total for a region with only 8.8 per cent of its population. Tax receipts were £23.5bn, or 8.7 per cent of UK receipts.

The spending total includes Scotland's share of Foreign Office and defence spending. Nationalists argue that UK defence spending is concentrated in southern England, so Scotland's liability should be reduced accordingly. And there is the North Sea oil and gas revenues, not included in the Scottish tax revenues, and privatisation receipts. Last year the two combined may have reduced a "Scottish Public Sector Borrowing Requirement" to £4.9bn.

PROFILE Sir Ian Wood, chairman of Scottish Enterprise

Forthright views are put in diplomatic language

If Sir Ian Wood has any reservations about the arrival of a Scottish assembly, it is that he fears it could make Scots concentrate too much on domestic affairs at a time when they should be looking outwards.

"If we do that we should be missing a vast opportunity. Instead of 'internalising' we would be 'internationalising'," he says. "I'm not sure if the Scottish people realise how fast the world outside is changing."

Sir Ian recently became chairman of Scottish Enterprise, the development agency whose mission includes raising the performance of Scottish business. It presides over 13 local enterprise companies (the Scottish version of the English training and enterprise councils) and runs Locate in Scotland, the highly successful inward investment agency.

Sir Ian, who is 55, knows all about internationalisation. He is executive chairman of the John Wood Group, a privately-owned oilfield and engineering services company based in Aberdeen which he created out of the family fishing business in the 1970s. Last year, about half the group's £440m turnover came from overseas operations.

"Our priorities in the Wood Group are technology, globalisation and innovation," he says. "They are the same at Scottish Enterprise."

Through the local enterprise companies, Scottish Enterprise provides training and assistance to businesses. The core body in Glasgow concentrates on national programmes such as encouraging the electronics sector to put down deeper roots, nurturing the growing number of Scottish biotechnology companies and helping develop an opto-electronics industry.

Over the last few years, it has co-ordinated a set of initiatives to increase Scotland's low rate of new company formation, which is beginning to show results. Recently it launched Technology Ventures, a programme aimed at commercialising the discoveries of Scottish universities.

> **His selection was something of a surprise; the Tories had knighted him**

In some ways Sir Ian was a surprising choice for the chairmanship of Scottish Enterprise. His political sympathies lie with the Conservative party, during whose term in office he was knighted.

He served as deputy chairman of Scottish Enterprise under the chairmanship of Sir Donald MacKay, whom the new government asked to resign, believing his views on economic development were incompatible with its own. Initially, Sir Ian turned down the offer of becoming chairman, but Donald Dewar, the Scottish secretary, persuaded him to change his mind.

"Ian has a great sense of public duty, and though he expresses himself forthrightly he is more diplomatic than Donald MacKay," says an observer.

Sir Ian is a man of strong self-discipline; he does not drink alcohol, and he makes maximum use of his time. He spends one week a month outside the UK, plans his diary months in advance, and criss-crosses Scotland indefatigably from his base in Aberdeen. He devotes one and a half days a week to chairing Scottish Enterprise.

Though he is a firm believer in the market economy, he thinks official bodies such as Scottish Enterprise are vital to improving national economic performance. At the time of the interview with the FT he said he "would love to see Scottish Enterprise having a budget twice as big as it is – the government would get it all back in increased tax revenue".

So he was deeply disappointed when, early this month, Mr Dewar cut the organisation's budget for next year by £20m to £454m, though he said the total was £14m more than the Conservative government had planned.

Sir Ian now wants the network of local enterprise companies to become more cohesive and to co-ordinate their activities more closely, an objective he shares with the government. "Setting up the network with autonomous local enterprise companies was a bold experiment which has broadly worked," he says.

"But it's now time we had a Scottish football team which plays as one instead of a Scottish skiing team where everyone is an individual."

James Buxton

Scotland

FINANCE

Some wobble while others perform strongly

The sector's morale has been hit in several ways, but all is not doom and gloom. Brian Groom reports

Scotland's banks remain strong and innovative while the country's fund managers, after months of bad publicity, hope the worst may be behind them. "It's certainly better than a year ago in terms of public perception," says Grant Baird, executive director of Scottish Financial Enterprise, which speaks for the financial community.

Performance by some companies has improved. Others are developing specialist niches. In any case, he adds: "The realities were never as good or as bad as they might have seemed."

Morale in parts of the fund management sector was hit when Scottish Amicable, the Stirling-based life company, was taken over by Prudential, which then transferred the management of £15bn of assets from Glasgow to London. Coupled with management troubles at companies such as the Edinburgh-based Ivory & Sime, this created a wave of uncertainty.

Many executives believe the gloom was overdone, particularly in the Scottish press, but perception is everything when your business is managing other people's money. Two of the three main pillars of the financial community – the life offices and independent fund managers – appeared to wobble.

Finance and business services account for 20 per cent of Scottish gross domestic product and one in seven jobs. The pillars are: four clearing banks with headquarters in Scotland, which have total assets of £116bn; eight life offices, with more than £140bn under management; and independent fund managers with £44bn under management.

In addition, there is the composite insurer General Accident, based at Perth, merchant banks such as Edinburgh-based Noble Grossart, plus specialists in corporate law, accountancy, global custody, performance measurement and financial information, graphic design, financial printing and public and investor relations.

Banking, insurance and finance employed 280,000 in 1996, according to Scottish Office figures, a fall of 11,000 from the previous year but an increase of 69,000 since 1985. The official figures include some non-financial activities so the true total is estimated at about 200,000.

The two Edinburgh-based Scottish clearing banks which operate throughout the UK, the Royal Bank of Scotland and Bank of Scotland, have continued to turn in good performances in spite of a scare last year when Standard Life, Scotland's biggest investment institution, put its 32 per cent stake in Bank of Scotland up for sale. In the event it dispersed all but 2.5 per cent around the market rather then selling to a potential predator.

Both have developed an entrepreneurial edge, notably in supermarket banking: the Royal Bank's joint venture with Tesco and Bank of Scotland's with Sainsbury have taken off rapidly in deposits, though it will be some time before profitability can be judged. At Bank of Scotland, Sir Bruce Pattullo will be succeeded as governor next spring by Sir Alistair Grant, chairman of the brewers Scottish & Newcastle – not a career banker, but a figure with experience of the City of London and whose skills would be valuable in the event of any unwelcome takeover bids.

Clydesdale Bank, owned by National Australia Bank, increased pre-tax profits by 22.6 per cent to £99.4m for the year ending September 30, and its fast-rising chief executive Fred Goodwin has also been put in charge of the group's Yorkshire Bank. Scotland's fourth bank is TSB Scotland, which raised profits by 5 per cent to £81m for 1996, its first full year as part of Lloyds TSB.

It is in Scotland's fund management community, however, that most controversy has occurred. The sector includes life assurance companies, led by Standard Life with assets of £49bn, and Scottish Widows with £24bn. There are also independent fund managers, the biggest being Baillie Gifford, managing £13bn. Others include Edinburgh Fund Managers with £7bn under management, Martin Currie with £6bn, plus institutions such as Ivory & Sime, Newton, Aberforth, Walter Scott and Stewart Ivory.

Troubles among some companies began late in 1995 when staff defected from Dundedin Fund Managers to form Castle International; Dunedin was later sold by Bank of Scotland to EFM. EFM's own performance suffered as it absorbed Dunedin, which doubled its size. Apart from the Scottish Amicable takeover, this year also brought problems for Ivory & Sime, which lost staff and £1bn of funds under management before seeking a larger partner.

Critics circled, arguing that the creativeness which built life assurance and investment trust empires in the last century was running dry. The sector had failed to show the growth that created big players in London.

Institutions which were performing solidly felt vindicated this autumn when SFE figures showed funds under management in or from Scotland had grown by 9.2 per cent to £187.8bn in the first half of the year. Even last month's friendly takeover of Ivory & Sime by Friends Provident was seen as strengthening the company.

Outside ownership does not necessarily hold fears: Scottish Equitable, for instance, is prospering under the Dutch company Aegon. Remaining mutuals will fight for their independence, though.

It has not escaped notice that MAM, held up as the model Scots were failing to achieve, has been taken over by Merrill Lynch. The trend towards global companies creates further uncertainty about the place for players of the size seen in Scotland.

These factors will have a more profound impact than devolution, about which fears are sometimes voiced. Life companies would probably prefer it not to happen, in case it creates uncertainty among English policyholders, but they have been reassured by promises not to tax savings more heavily north of the border. If it is coming, they reason, then they want to see business-friendly candidates. Standard Life is leading the way by allowing staff time off to run for election.

DEVOLUTION

The bare facts of government await flesh

Constitutional matters have dominated the debate, says James Buxton. Little energy has been devoted to studying policy

The momentum carrying Scotland to devolution has slowed since the referendum in September.

It might have been sustained if Donald Dewar, the Scottish Secretary, had speedily announced where in Edinburgh the new parliament was to be sited, as he had said he would. But the government belatedly realised that a decision between three possible sites in the centre of the city and one in the port of Leith was more complicated than it had thought, and nothing is likely to be announced before the new year. It seems unlikely that a new building will be ready for the assembly's opening in 2000.

The drafting of the devolution bill has also proved more difficult than expected, but is now likely to be published before Christmas. In the meantime, little more detail has emerged about what will happen after the parliament comes into existence than was in the white paper – Scotland's Parliament – published in July.

The parliament will control all matters now devolved to the Scottish Office, such as education, health, economic development, law and order and agriculture. Scotland's government will be called the executive, and will be presided over by the first minister.

There will be 129 members of the Scottish parliament, 73 of them elected by the first-past-the-post system and the remaining 58 elected by the additional member system. Thanks to this top-up of proportional representation, the number of MPs a party has will be roughly in line with its share of the vote.

This will benefit the two Scottish parties penalised under the first-past-the-post system, the Scottish National party and the Conservatives.

Labour is likely to win the largest number of seats but would probably fall short of achieving a majority. It might then rule in coalition with the Liberal Democrats.

But exactly what the parliament will apply itself to doing when the members take their seats after the elections in the spring of 1999 is far from clear. Political debate in Scotland has been dominated for so long by the constitutional question that little energy has been devoted to the study of policy.

The SNP has long had a comprehensive manifesto of everything it would do in an independent Scotland and has a policymaking machine. The others have yet to detail their ideas, and the Conservatives are in disarray.

Although there are a number of Scottish policy research organisations, including the left-leaning John Wheatley Centre, there has not so far been a rush of policy papers. Yet, over time, Scotland is likely to diverge further from England in the way it runs public services.

But it will not have control over macro-economic policy, and will find it difficult to make big changes in the way it allocates spending between the three big items in the Scottish Office budget – local government, health and education. The biggest changes could come in areas outside these big items.

The assembly will go on receiving its annual allocation from the treasury in London, currently about £14.5bn. But it will also have the power to levy a 3p in the pound surcharge on the basic rate of income tax, the so-called tartan tax.

Many observers believe the parliament will sooner or later exercise this power to give it a little more flexibility in spending, even though a 3p income tax supplement would not raise more than £450m.

The tax-raising power might be used if the allocation from the treasury were reduced, says Graham Leicester, an Englishman who has moved to Scotland and set up the Scottish Council Foundation, a think-tank.

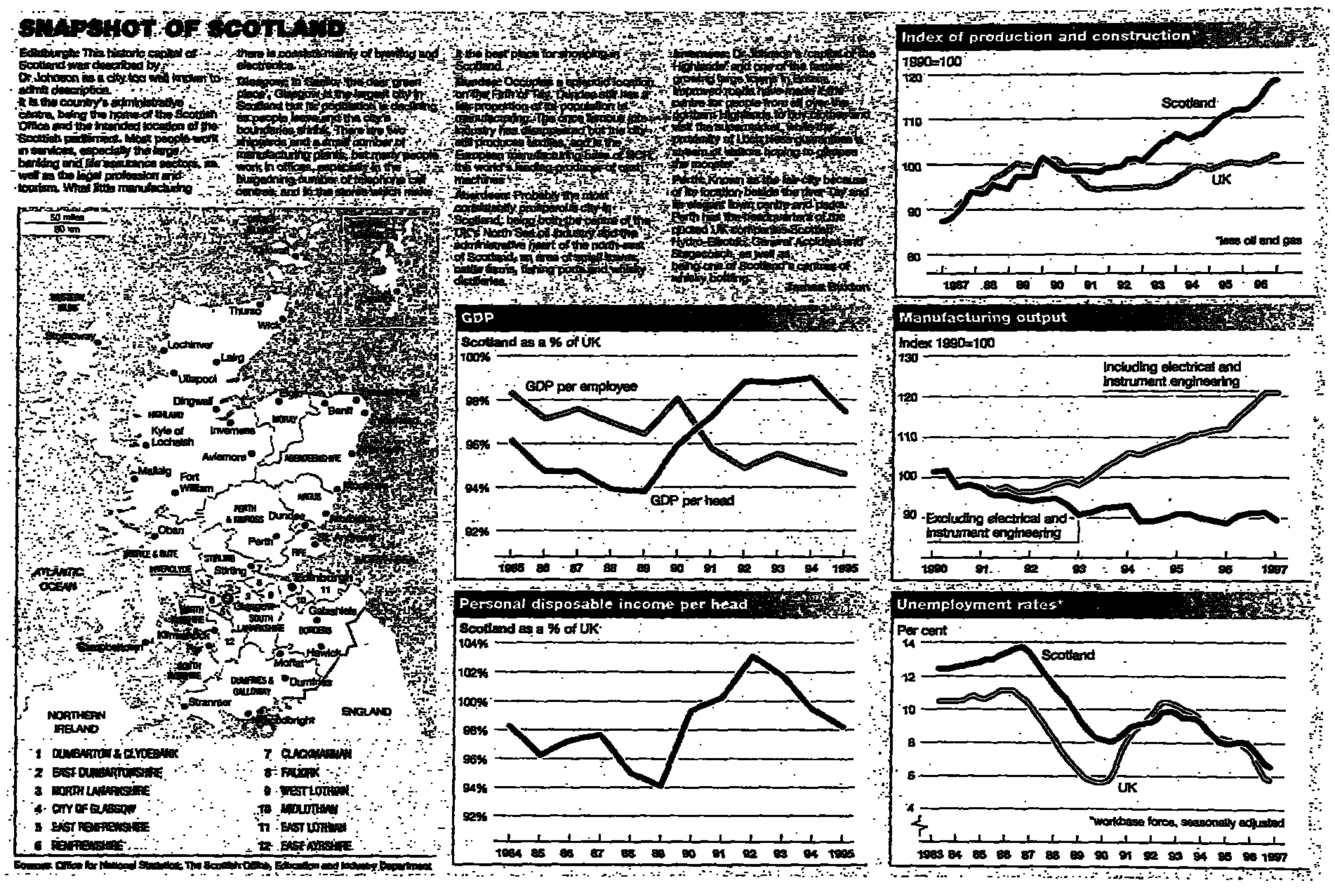
In the booklet Scotland's Parliament, a Business Guide to Devolution, he writes that it will cost £20m a year to maintain the mechanisms to collect the tax surcharge from those eligible to pay it – people living or working most of the time in Scotland.

The fear that the devolved Scotland will allow councils to push up business rates and levy the income tax surcharge worries businesses. They fear the first will discourage investment and the second will make it more difficult to persuade good managers to move to Scotland. They are also concerned at the range of regulatory powers affecting them which the parliament will have.

Companies are now beginning to confront the question of how they will deal with the new parliament and explain their case to it. The referendum left them confused and feeling the business community had failed to explain its concerns to the voters.

Many companies are now wondering whether to go on supporting the bombed-out Conservative party or to establish links with other parties. Out of this confusion there has emerged the idea of the Scottish business community forming its own political party to contest the Scottish parliamentary elections.

The consensus at a recent FT business breakfast in Edinburgh was that companies should establish good contacts with the Scottish political parties. "They should remember," one platform speaker said, "that the Scottish parliament won't want to preside over economic failure."



Sources: Office for National Statistics; The Scottish Office, Education and Industry Department

PROFILE Gus Macdonald, Scottish Media

Changing hats; read all about it!

A new chapter is opening in the life of Gus Macdonald. The chairman and managing director of Scottish Media, which used to be called Scottish Television, gives up his executive function this month and starts playing a broader role in Scottish affairs.

He is to become chairman of the Cairngorms Partnership, a post far removed from the world of Scottish Media in Glasgow, and is also joining the Scottish Economic Council, which advises his friend Donald Dewar, the Scottish Secretary.

The transition comes at a time when Scottish Media's dominance of its sector in Scotland is greater than ever. This year it bought its northern counterpart, Grampian Television, after last year taking over Caledonian Publishing, owner of The Herald, the Glasgow daily newspaper.

Mr Macdonald, a tall man with a grey moustache and a twinkle in his eye, also claims credit for the fact that the company's market value has grown since he became managing director in 1990 from £50m to about £450m.

It has preserved its independence despite being one of the UK's smaller television companies. In 1993 he masterminded a brilliant coup which saw the company retain its licence unopposed with a bid of only £2,000.

Now new possibilities are opening up for the company with the arrival of the Scottish parliament, a prospect that delights Mr Macdonald.

"It's an historic change," he says. "It will give Scots a sense of ownership of what's going on in their country and bring more self-confidence. We will decide for ourselves what we should spend our budget on, and blame other people less for what's wrong."

Devolution will be also good for Scottish Media, he says, because it will give Scotland a stronger identity. Companies will want to have distinct advertising campaigns for Scotland rather than Britain as a whole, and Scottish Media, now with licences for most of the country, will be able to deliver the television market to them.

The new Scottish assembly and the executive will also generate news. Scottish Media is studying how to devise an evening news bulletin to incorporate Scottish, UK and world news which could replace the early evening national news from ITN and its local Scottish news programme.

Scottish Television already transmits about 1,000 hours of local programming, the largest of any ITV company in the UK. Mr Macdonald believes this may be about as much as is practicable. "You can lose audience ratings with too much local programming, but people like watching it and it is very good for building up loyalty."

Gus Macdonald's working life began as a marine fitter and union militant in shipyards on the Clyde. He wanted to be a journalist but began his media career as circulation manager of Tribune, the left-wing weekly magazine. He is a lifelong Labour supporter.

Moving to London, he worked for the Sunday Times newspaper before going to Granada Television as an investigative reporter. He joined Scottish Television in 1986 as director of programmes, later becoming managing director.

Now he has to preside over some of the most passionately fought controversies in Scotland in the Cairngorms Partnership. This is a grouping of landowners, conservationists and official bodies which tries to reconcile the interests of nature and the local inhabitants in this spectacular mountain area.

"My advantage is that I come to it with no political baggage," says Mr Macdonald, who enjoys leisure time walking in the hills near Ben Lomond.

But he believes he can cope with the warring factions. "As a journalist you develop an instinct for objectivity when you hear both sides of the argument. They told me it would be only two days a month, to which I gave a wry smile."

James Buxton

EDUCATION

A dash for the right ticket

Comparisons between Scottish and English education standards and requirements is unlikely to abate, says Antonia Swinson

"Scotland's education is the best in the world" is a long-held Scots' shibboleth which historically has meant that their education was better than that of the auld enemy, England.

However, this comfortable assumption is now coming under harsh scrutiny. A recent international study of nine-year-olds showed Scottish schoolchildren coming ninth out of 17 countries in both maths and science, behind the US and the Czech Republic. In science, they were beaten by English schoolchildren, who came fifth, though the Scots were one place ahead of the English in maths.

Further up the secondary school, the latest exam results show little improvement over the previous year. Meanwhile it has emerged that the proportion of pupils taking Higher Grade examinations in a foreign language has dropped from 36 per cent in 1975 to 12 per cent in 1996.

There is currently a maelstrom of debate raging up as far as the universities. A complex set of issues promises to pose the Labour-run Scottish Office with one of its stiffest tests.

Scotland has always had a separate system of education. Children start school at five and have an extra year at primary school compared to English pupils, entering secondary school at 12-plus.

The system is genuinely cohesive; secondary schools are comprehensive and with very few exceptions remain under local authority control. Only 4 per cent of children attend private schools, compared with 7 per cent in England and Wales.

At 16, children take the standard grade exam, equivalent to GCSE in England. At 17, they take up to five Higher grades. The emphasis is on breadth, with many pupils taking a range of subjects across both arts and science. Over 76 per cent stay on after the age of 16, compared with 46 per cent of pupils in England.

Scotland has experienced far less turmoil in education than English schools, which have faced the challenges of the national curriculum. Scotland has its guidelines for children aged 5 to 14, but within them teachers are freer to teach their own material than would be permitted under the national curriculum.

The school inspectorate remains in civil service hands, unlike in England; schools are largely self-assessed and set themselves targets. Whereas in England six unions squabble for supremacy, in Scotland more than 80 per cent of teachers belong to the Educational Institute of Scotland.

However, long-postponed reforms of examinations in senior schools, due to be introduced next year, are rekindling controversy. In England, able pupils take three A levels at the end of a two-year course when they are 18; their counterparts in Scotland take Highers when they are 17 after a one-year course.

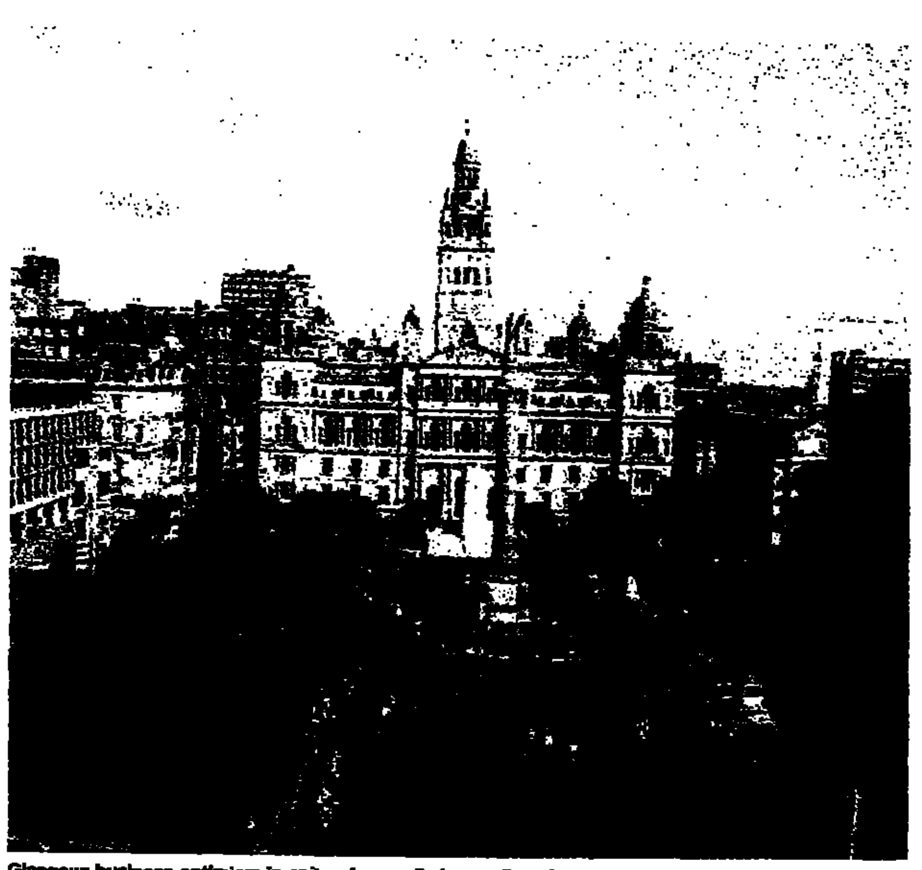
This effectively consists of only two terms – the so-called two-term dash – because the exams are at the start of the summer term. Anyone who gains satisfactory passes in Highers can expect to be offered a place at a Scottish university. These provide four-year degree courses, partly to make up for the lack of depth in Highers.

Most Scottish pupils who stay at school after 16 carry on for another year after doing their Highers at 17. They may sit more Highers, while a few may take the Scottish Certificate of Sixth Year Studies.

But if they have already received an unconditional

Continued on facing page

Scotland



Glasgow: business optimism in spite of council sleaze allegations Photo: Tony Andrews

GLASGOW

Looking to a brighter future

Business leaders are encouraging a forward-looking policy rather than a hark to the past. Andrew Bolger reports

There are few more tired cliches about Scotland than the rivalry between Glasgow and Edinburgh. Yet the two cities do seem locked into a see-saw relationship: if the fortunes of one are up, the other looks down by comparison.

Sometimes the tension can be creative. Glasgow's success as European City of Culture in 1990 gave a jolt to the capital's civic leaders, who have since substantially improved Edinburgh's cultural and conference facilities.

However, recent comparisons have been less flattering to the former industrial giant on the Clyde. While Edinburgh's confidence has been boosted by the prospect *of a Scottish parliament*, Glasgow City Council has been under a cloud of sleaze allegations. Another tight financial settlement has caused Glasgow to warn of redundancies, schools closures and the cutting of library and leisure services.

Although suspension of nine councillors from the Labour party has done little for Glasgow's image, the city's problems are more fundamental than allegations concerning foreign trips.

The disappearance of Strathclyde regional council in the reorganisation of Scottish local government two years ago cut off Glasgow from the tax base of its more prosperous suburbs. The council argues that central government funding does not reflect the extent of social deprivation within the city's reduced boundaries.

Yet Glasgow's business community appears to be taking a remarkably relaxed view of the council shenanigans. Stuart Gulliver, chief executive of Glasgow Development Agency, says: "I wish it hadn't happened, obviously, because it puts the city on the front page for *what everybody would* regard as the wrong reasons. But, to be fair, I have not yet come across anybody who wants to do business in this city who has even mentioned it, never mind said it has is having a negative effect."

One reason could be that the Glasgow economy is now performing better than it has for decades. The GDA hopes to have attracted 6,000 jobs to the city this year – including investment from US employers such as Compaq and Polaroid. Glasgow's stock of jobs has increased for the first time in 20 years, and unemployment has been falling faster than the Scottish and British averages.

Mr Gulliver says: "People tend to look back at the 1980s as the halcyon days of the city's recent economic past. They remember major international events such as the 1988 Glasgow Garden Festival and the City of Culture celebrations and see them as landmark events. They certainly were, and they were important paving devices for the future development of the city.

"But the truth of the matter is that they were large-scale public events during a time when the city's economy was not performing at all well. By contrast, what is happening in the city today shows all the signs of good economic performance."

The GDA believes the city is embracing a "post-industrial" future. "There are jobs here – they're just different kinds of jobs," says Mr Gulliver. "They are not in ship-building, or making trains – they are in biotechnology, in electronics and software."

Glasgow's claim to be the telephone call centre capital of the UK has been enhanced by thousands of new jobs in the sector, with companies such as Tesco, Royal Bank of Scotland, BT and Scottish Power all recently locating or expanding in the city.

Retailing has been another significant source of employment. Glasgow's position as the second-biggest shopping centre in the UK, after the west end of London, will be strengthened by the opening in 1999 of the £150m Buchanan Galleries complex, Scotland's largest city centre shopping centre. With stores such as John Lewis, Habitat, Next and Boots, it is expected to create 1,600 new jobs.

Tourism and the business conference sector are also doing well. Domestic tourism increased by 20 per cent last year, more than twice the figure for the UK as a whole. Alongside the Scottish Exhibition Centre, a spectacular new £38m conference centre – designed by Sir Norman Foster and affectionately known as the Armadillo – allowed Glasgow to host a conference of 3,000 American travel agents in September.

David Nelson, of the consultancy EC Harris, says: "Hotels in Glasgow have witnessed a rejuvenation, with the Hilton opening five years ago, the Malmaison chain recently completing an extension to its Glasgow flagship on West George Street, and the Holiday Inn Garden Court increasing its capacity in West Nile Street."

The regeneration of the neglected south bank of the Clyde was given a fillip last month when the Millennium Commission awarded £35m towards a £72m national science centre on the derelict Glasgow Garden Festival site at Pacific Quay. It is expected the new Scottish headquarters of BBC Scotland will also go there, providing the nucleus for a possible "media park".

None of these positive developments can conceal the extent of poverty and deprivation remaining in the city, often found cheek by jowl with designer restaurants and shops. Peripheral estates are blighted by high levels of ill-health and drug abuse.

The GDA has developed a pioneering project, Glasgow Works, which provided paid work, vocational training and personal development for 400 long-term unemployed people – 62 per cent of whom obtained work.

Mr Gulliver says: "Glasgow has 25 per cent of Scotland's unemployed, and 30 per cent of its long-term unemployed, so the problem is concentrated. We are determined to get welfare-to-work to work for us in this city. Crack the problem in Glasgow, and you crack Scotland."

INDUSTRY

Electronics lead from the Glen

Production of semiconductors has been a spectacular success for Scotland. Richard Adams looks at the reasons

On a wet winter evening, a group of accountants crowd into the Cyberia internet cafe on Hanover Street in central Edinburgh for glasses of wine and an introduction to using the internet. The wine may be from *France, but some of the tech*nology they are using is as likely to have come from Scotland.

*Scotland has made a spec*tacular success of attracting and developing its electronics industry into a sector that now employs more than 65,000 and has invested billions of pounds. As a result, Scotland has become Europe's leading centre in semiconductor production, with 8,000 people producing 13 per cent of the world's semiconductor output.

Electronics – which includes the production of goods such as music systems as well as computers – now makes up one-fifth of Scotland's entire manufacturing output and accounts for 13 per cent of the country's manufacturing jobs. Compaq's plant in Scotland, for example, is one of the world's largest production sites for personal computers.

The accountants in the Cyberia cybercafe are more interested in what they can do with this technology, as they are guided through the internet by trainers.

The cafe also houses another new technology industry for Scotland. Realise Web Development may currently employ only 15 staff, but its managing director, Gavin Nicholson, says it is the biggest web site consultancy in Scotland. The consultancy designs and realises company sites for access through the world wide web, as well *as sites for* internal use within an organisation.

Its clients include Scottish and Newcastle brewery, a Scottish bank and The Scotsman newspaper.

The connection between the massive *electronics sec*tor, involving multinationals such as Motorola and NEC, and the small but growing information technology and multimedia industry represented by Realise, is on two levels. The electronics industry needs the content to make products such as computers attractive: the more people use facilities such as *the internet, the greater the* demand for microchips, silicon wafers, motherboards and video monitors from the *plants of West Lothian and* the rest of Scotland.

There has been some concern that the electronics industry, while accounting for over 50 per cent of Scotland's exports outside the UK, is not adding value to the economy. However, that charge will be harder to sustain after the news earlier this month that Cadence Design Systems, a California-based company which produces software used in designing semiconductors, is setting up its largest design centre worldwide at Livingston in West Lothian.

The facility is expected to employ more than 1,800 software engineers by 2002 and is part of an initiative launched by Scottish Enterprise, the development body, to give the Scottish electronics industry as strong a base in software as it has in hardware manufacturing.

Four universities, Edinburgh, Glasgow, Heriot-Watt and Strathclyde, are developing new courses to meet the need for software engineers to work in the Cadence facility.

There has been some concern that the electronics industry, while accounting for over 50 per cent of Scotland's exports outside the UK, is not adding value to the economy. A BBC documentary last year high*lighted the low-skill*, part-time nature of some of the employment created by the electronics industry. The *Scottish Electronics Forum* estimates that around 20 per cent of jobs in the sector are temporary because of the *cyclical nature of the indus*try.

The concern is that electronics will follow the oil production industry, which provided a valuable boost for employment but disappointingly few spin-offs into related industries.

Scottish Enterprise says the experience is unlikely to be repeated by the electronics industry. Jim Porter, of Scottish Enterprise, says that *his organisation's aim* is to establish more indigenous provision for the industry from within Scotland.

One way of doing this is by providing "turn-key" capacity to attract investors by offering access to a com*plete portfolio of production* facilities within Scotland, rather than just as a source of cheap labour. Doing so *will help protect the indus*try in Scotland from cyclical shifts in international markets and exchange rates.

A sign of the industry's success is its increased demand for skilled workers and managers. The Scottish-based employers are attempting to identify future skills shortages in areas such as electronic engineering and programming, and work in partnership with universities and the government to develop the workforce that will be needed.

Tony Joyce, of Motorola – which manufactures semiconductors in Scotland – says the industry recognises that it is in its interest to make sure there is a pool of skilled, talented labour in Scotland, and is willing to co-operate to do so. "What some people would be surprised to see was companies they would see as competitors actually sitting around a table and agreeing what was needed in terms of skills," says Mr Joyce.

Motorola was one of the companies which helped fund the new Scottish Advanced Manufacturing Centre in Livingston, to provide training for up to 5,000 people from the electronics *industry every year. And* they will be needed: around 7,000 new jobs are expected to be created within the next three years.

George Bennett, a vice-president at Motorola and chairman of the Scottish Electronics Forum, recently said that regional grants from government to investors from overseas should be *tied to the quality and not* just the "head count" of the investment. "For example," he says, "if an inward inves*tor is coming into Scotland*, he should commit at least to an apprenticeship scheme and fund a skills pipeline that enhances the industry."

The semiconductor industry has also helped develop special higher education certificate and diploma courses in process engineering through the new centre, in partnership with West Lothian College and Napier University. A national microelectronics institute has *also been established at* Heriot-Watt University.

At the other end of the computer-based industry, Realise Web Development is also suffering from a staff shortage as it looks to expand into bigger premises. "Finding the right staff with the right kind of skills is very difficult," says Gavin Nicholson.

THE HIGHLAND AND ISLANDS

It's getting tougher at the edges

This sparsely-populated region is having to face up to a round of cuts in finance and services, says Andrew Bolger

The Highlands and Islands region, after enjoying *several years of sustained* economic uplift, has recently encountered some turbulence.

The recent decision by British Airways to transfer flights between Inverness and London to Gatwick *instead of Heathrow caused* widespread dismay in the region, which fears it could damage both business and tourism.

In spite of lobbying from Highland Council, Highlands and Islands Enterprise (HIE) and even the Scottish Secretary, BA refused to budge. The service has now moved to a BA franchisee, *Manx Airlines, using smaller* aircraft.

Iain Robertson, chief executive of HIE, says: "It is one of these blows that you don't expect. It is a setback for an area that is on its way back."

Another blow to confidence has come from the impact of local government reorganisation on Highland Council, which has complained that it is underfunded because the cost of providing services in a sparsely-populated area is not sufficiently recognised.

Continuing budget cuts have forced the council to shed 500 jobs in the past two years, mostly by voluntary redundancy, and it has recently started *consultations over the* closure of nine primary schools.

The Highlands and Islands *also faces the loss of grants* from the European Union after 2000. Since 1992, it will have received about £242m *after being accorded* Objective 1 status, the most needy category. The EU is determined to tighten the criteria of its structural funds and will limit Objective 1 status to areas where GDP is below 75 per cent of the European average.

The GDP of the Highlands and Islands is now about 80 per cent of the European average, and the area was perhaps fortunate to secure Objective 1 status last time. But HIE and and the area's seven local authorities have formed a European partnership to lobby for continuing Objective 1 funding on the basis of its sparse population.

The Highlands and Islands covers half the land mass of Scotland, yet includes only about 7 per cent of the population – 370,000 people. As the partnership's submission says, it is "an area larger than Belgium, containing only one-third of the population of Brussels".

Special arrangements are being made within the reformed Objective 1 funding for the "northern rim" of Finland and Sweden, which *has a population density of* only eight people per square kilometre. The partnership argues that the Highlands *and Islands should also be* included in this "northern rim" category since it has a population density of nine *people per square kilometre*.

Mr Robertson says: "This is not a faint hope. We have 100 inhabited islands. If you have an *Objective 1* scheme, surely it should be applied to an area which has the problems of ferries, transport, communication? That's the kind of support which island communities richly deserve."

However, these challenges should be seen against a background of continuing economic and cultural renaissance in most parts of the Highlands and Islands. The HIE's annual report records the creation or retention of a record 3,745 jobs last year. The birthrate of businesses has risen to 3.4 per thousand of population – well above the Scottish average of 2.5 per thousand.

A survey by HIE and the Scottish Council Development and Industry showed that manufactured exports from the area – excluding whisky and oil activity – had more than doubled since 1991.

Fraser Morrison, chairman of HIE, says: "Exports from Scotland at *large* have increased significantly in *recent years, as a result of* many major inward investments, but what is particularly encouraging is *the fact that our exporters* matched that Scottish growth level – largely through the activities of a *diverse range of small* businesses. This diversified base to the economy renders us ever less susceptible to *individual market changes*."

Oil rig fabrication has been one of the most cyclical of the area's industries, alternating between boom and bust in the 1970s and 1980s. However, Barmac has recently seen a resurgence of orders at its yards at Nigg, in Easter Ross, and Ardersier, near Inverness. European funding supported an *£8.2m* upgrade of the Nigg yard so it could compete in the growing market for floating oil production systems. *The* company has just announced it will take on 100 apprentices, and promised to ensure the rest of its workforce could obtain vocational qualifications.

Tourism remains central to the economy of the region, providing 20,000 jobs – one in eight in the north of Scotland. The redevelopment of the *village of Aviemore* has been identified as a key objective by HIE. There has been bitter controversy over plans to build a £15m funicular railway up the nearby Cairn Gorm, one of Scotland's highest mountains.

The Scottish Secretary said the railway, which would *replace chairlift* pylons, would benefit the Highland economy and strengthen tourism. *However, the Royal Society* for the Protection of Birds and the Worldwide Fund for Nature, continue to fight the *proposal in the courts on* environmental grounds.

The HIE hopes to reduce low-season unemployment *by developing "cultural"* tourism – such as the the study of the Gaelic language, history and archaeology. *Arts festivals* are supported throughout the region, which continues to benefit from recent films such as *Braveheart* and *Rob Roy. It* is hoped the creation of the Scottish Screen agency will increase the level of *film-making* in the area, and thus generate further tourism gains.

One of the biggest boosts to the area's cultural self-confidence came last year with an award of £33.5m by the Millennium Commission towards a long-awaited University of the Highlands and Islands. The aim is to forge 13 existing educational institutions into a collegiate, federal university by the year 2001.

Mr Morrison, who chairs both HIE and the board of the UHI, said: "We anticipate a situation where the *outward migration of the* most talented, long a characteristic of every Highlands and Islands *community, is a thing of the* past."

PROFILE Ian Robinson, Scottish Power

Mr Motivation heads a work taskforce

Ian Robinson, chief executive of Scottish Power, might be thought to have *an obvious motivation for agreeing to chair the* government's Scottish New Deal taskforce on *welfare-to-work* – his company will pay £317m in windfall tax to help fund the scheme.

But Mr Robinson, 53, plays down any such connection.

"We paid a lot of windfall tax and that was quite an issue in our minds," he says. "But that issue is behind us; it is one-off, and in life you have to look forward."

Instead, Mr Robinson *explains his decision to lead* the taskforce by pointing to Scottish Power's longstanding commitment *to training and community* involvement, which has earned the company plaudits – and business – from the trade union movement.

Since privatisation in 1991, Scottish Power has reduced the workforce in its core business by half.

To help remotivate staff, the company established open learning centres for employees and their *families. The company now* operates 41 centres in its areas of operations – Scotland, Merseyside, North Wales and the south-east of England. They offer 700 programmes ranging from languages to vocational qualifications, diplomas and degrees.

Last year, in partnership with trade unions, the company launched Scottish Power Learning, which offers training places to the *unemployed. The initial* target was to create 300 training places for the jobless in Glasgow and Liverpool, at an annual cost to the company of £2m. Already 200 places have been filled and some trainees have secured full-time employment.

Mr Robinson said: "One fellow told me 'I fell on my feet. My pals used to deride me for working, for coming *off the [welfare] benefit* – now they're all trying to get on to it.'

"If you go out and talk to *these fellows, you just see* the fantastic remotivation it has had on people. On some of the programmes, like the call centre and information technology training, virtually no one has finished the course – because they have all got themselves out and found jobs.

"I use this word, they're 'dressed' for work. They are really motivated and have got great enthusiasm *and things to offer* employers."

An unexpected bonus was the effect on Scottish Power employees who participated in these programmes. Mr Robinson says: "They really feel good that they are doing something for this disadvantaged group – and they have found some terrific people."

This community involvement has not *prevented Scottish Power* from making some shrewdly-timed acquisitions.

Two years ago, the company won a fiercely-fought battle for Manweb, the regional electricity company covering Merseyside, Cheshire and North Wales.

Last year it took over Southern Water, which supplies Kent, East and West Sussex, the Isle of Wight and part of Hampshire.

Now, as one of the leading multi-utility *companies, Scottish Power* is poised to benefit from the forthcoming deregulation of the electricity and gas markets.

Mr Robinson's role in the New Deal taskforce, combined with Scottish Power's longstanding commitment to a partnership approach with its unions, may have helped the company to beat 16 other companies to become *the Trade Union Congress's* exclusive energy supply partner.

Having already signed a *similar deal with the* Automobile Association, Scottish Power will now be given the opportunity to sell gas and electricity to the TUC's 7m members. John Monks, general secretary of the TUC, says Scottish Power was "a well-regarded employer with a good track record".

Mr Robinson, who comes from Middlesbrough, says Scottish employers have so far shown "great *enthusiasm" towards the* welfare-to-work proposals.

He says: "Scotland is a much smaller society; we are closer-knit – and things can be done because we know each other well. Lines of communication are shorter."

Andrew Bolger

Continued from facing page

offer of a university place they will not be under pressure. Less-bright pupils, meanwhile, will be doing Highers for the first time after two years of study.

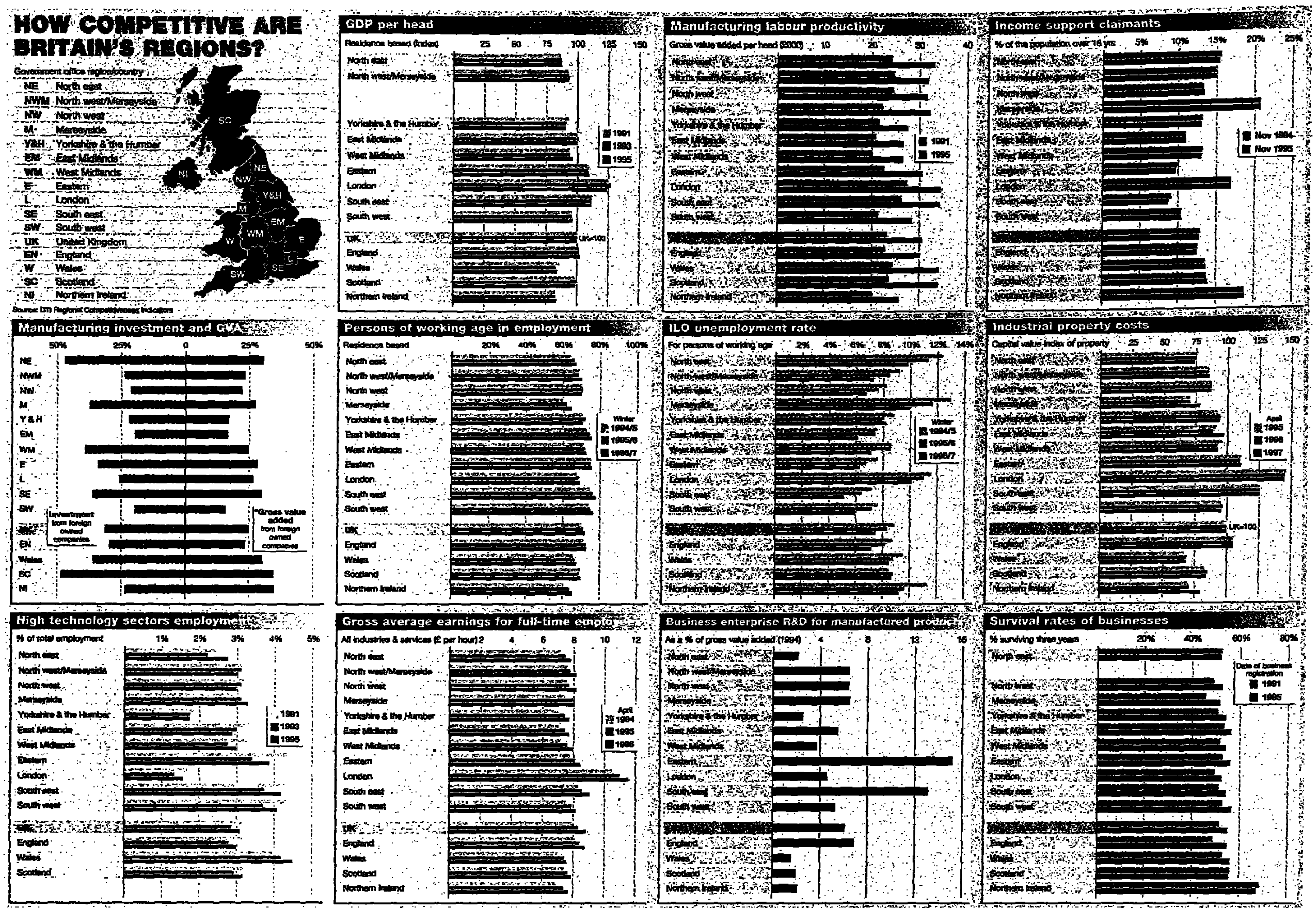
The Higher has long been perceived as too difficult for *the less-academic pupils*. After two postponements, enter Higher Still, a new set of qualifications which from 1999 *will replace the Higher*, the Certificate of Sixth Year studies and the old vocational Scotvec qualifications.

Widely perceived as cumbersome, with its five levels of attainment, up from Access to Advanced Higher, broadly equivalent to A level, it could prove confusing for employers. Smaller secondary schools claim it is almost impossible to introduce across a broad range of subjects.

Meanwhile, universities are also quickly having to confront new realities. The four-year degree courses mean students have to pay an extra year's living expenses compared to their counterparts in England. To this burden will be added from next year the government's new £1,000 tuition *fee, from which 40 per cent* of Scottish students will be exempted because of insufficient means.

Brian Wilson, the Scottish education minister, has caused dismay by ruling that Scottish and EU students at Scottish universities will not have to pay tuition fees for the fourth year, but English students will.

Around the regions



URBAN RENEWAL

Now Railtrack branches out

Commuters may blanch at the mention of trackside trees, but Richard Wolffe discovers that wood is now good

It sounds enough to make weary commuters want to cancel their season tickets. After years of hearing rail authorities blame "leaves on the line" for train delays, Railtrack – the company now responsible for the upkeep of the UK's railways – is planning to create new woodlands alongside some of the busiest lines in Britain.

Beside a one-mile stretch of railway, on the line linking Clapham Junction and Gatwick airport in southern England, Railtrack aims to plant trees on embankments, derelict land and nearby parks. The project, managed by the National Urban Forestry Unit (NUFU), is designed to regenerate the inner-city environment as well as making rail journeys more attractive.

The project is a stern test for the unit's claims that trees can improve the quality of urban life, while at the same time allowing the trains to run on time. Last month, Antoine Hurel, chief executive of Connex Rail which runs some of the services in southern England, condemned the British love affair with trees for train delays, and urged Railtrack to cut down more trees near rail lines.

"The whole issue of leaves on the line is about having the right kind of leaves," said Nerys Jones, chief executive of the NUFU. "Trees that have large leaves, like horse chestnut and sycamore, cause a problem because they take a long time to break down and turn into big slimy leaves – unlike smaller leaves like oak and beech.

"It is all about managing Railtrack's land and reaching out to the local communities, so we are going through an extensive community involvement and consultation process."

The work with Railtrack follows the unit's improvement of an 11-mile stretch of motorways in the West Midlands, on public parks, schools and derelict land. Over the last four years, around 50 hectares of new woodland has been added to the highly urban roadsides beside the M5 and M6 motorways.

The unit's most persuasive argument is that its green approach to urban regeneration is not costly. By using fast-growing forest species – rather than more ornamental trees – the NUFU estimates its solution is one-fiftieth of the cost of more traditional methods favoured near business parks and out-of-town shopping centres. To plant trees in a hectare of land costs less than £10,000, according to the NUFU.

Now the unit is in talks to improve the environment around the Greenwich peninsular in south-east London, to establish a green barrier between the government's huge Millennium Experience exhibition and nearby housing.

With a small government grant of just £250,000 a year – and a turnover of less than £2m – the NUFU attempts to convince the private sector that it can improve the value of its land by planting trees. Developers may be more attracted to land with trees, while landlords can also use trees to improve drainage from industrial land or even to reduce heating bills by sheltering buildings.

Millennium Commission funds have proved a substantial boost for this green type of urban regeneration. In the Black Country, north-west of Birmingham, the commission has awarded £4.2m to plant 2m trees in the region by 2000, in a separate NUFU project.

But the use of humble trees to regenerate land is not confined to urban areas. Last month, the commission also awarded £6m to an ambitious scheme to transform derelict land once used for coal mining in the Midlands.

The funds will be used to build a visitors' centre at the National Forest, the first new forest of its size for 1,000 years. The forest is a government-aided project which aims to cover 200 square miles of Leicestershire, Derbyshire and Staffordshire with trees, converting former coalfields as well as farming land. By 2005, it aims to plant the bulk of its trees, covering almost one-third of the region.

Without the funds to own any sizeable tracts of land, the forest's leaders must convince the private sector – as well as organisations in the public sector – that the forest makes commercial sense. At its heart is a tender scheme, where landlords compete for government grants as long as their new woodland offers public or environmental benefits.

Susan Bell, chief executive of the National Forest Company, says: "This area was incredibly badly hit by the closure of the deep mines – which cost 10,000 jobs – and the decline in manufacturing. It is not only physically battered, but also socially and economically battered.

"We are seen very much as the lynchpin for attracting inward investment, through bids for public money and through the improvement of the area. We can help to bring in higher quality investment, offering better jobs, not just distribution centres. It is a better environment for staff and for the top executives, and the forest can prove very important in the decision-making process about where to locate."

Two years after its launch, the forest covers more than 740 hectares with 1.6m trees, including urban forests in Burton upon Trent and Swadlincote.

However, the scheme has been struggling to cope with the rising price of land in its region, where the market in farmland has increased by up to 40 per cent since 1995. The forest is lagging behind its own ambitious targets by 125 hectares, as its £2m budget is squeezed by the higher cost of converting farmland into forests. The company is now drawing up a revised business plan, but insists that it will not lower its aims.

"We have to use mechanisms that we would not have dreamed possible – such as the Millennium Commission bid, urban regeneration funds, or funds from the new landfill tax. But we do not in any way wish to reduce our targets," Ms Bell says.

"One of the things that has surprised us is how the forest has grown in importance, and how it can bring economic regeneration to this area. Now the forest is used in literature sent out to attract inward investors. Even in the housing market, being at the heart of the National Forest is perceived as making a difference."

NEWS IN BRIEF — David Parsley

Bath pulls the plug on traffic

Bath is planning a radical experiment in town planning which will give priority to pedestrians, cyclists and public transport. The local council is considering installing high tech gates at two points in the city which would prevent access to all vehicles other than local buses.

Other measures include a 20mph speed limit, closure of two city centre car parks, the removal of on-street parking, and the closure of the famous Pulteney Bridge to all but emergency services.

London voted best

EU company executives have voted London as Europe's best city for business for the eighth successive year. Healey and Baker's European Cities Monitor 1997 survey puts London way ahead in the opinion of 500 leading European companies. Paris came second, followed by Frankfurt.

The criteria used to make the assessment were: easy access to markets; external transport links; quality of telecommunications; languages spoken; office space availability; and best internal transport.

Investment 'to fall'

Financial crises in Asia have led economists to cut their forecasts for Britain's inward investment next year by up to 25 per cent. Nigel Pain, of the National Institute of Economic and Social Research, says: "On our economic model, we expect inward investment to fall next year by at least 23 per cent, and we will revise that figure in January, probably by 2 percentage point or more."

Mr Pain and his colleague Ray Barrel study inward investment closely, and this year, they say, foreign direct investment, including mergers and acquisitions, will be £27.3bn.

Their findings come as there are fears that Hyundai, the Korean conglomerate, could be forced to delay its £3bn investment in Scotland, risking 3,000 jobs, after the recent collapse of the Seoul stock market and the country's currency.

More shops planned

Centros Miller has unveiled plans for a 118,000 sq ft shopping centre in central Wrexham. The developer has submitted a detailed planning application to the north Wales town's council, which selected Centros as its preferred developer for the scheme.

The proposed scheme comprises two anchor stores of 35,000 sq ft each and six smaller units of between 2,350 sq ft and 3,200 sq ft.

Homes challenge

West Sussex County Council is challenging a government decision to force it to allow more homes to be built. The government has issued a directive to the council requiring the planned level of new housing in its structure plan to be raised from 37,900 to 50,700. The council is applying to the High court for a judicial review of the decision.

Room to improve

The most deprived areas of England have failed to improve since 1991, despite substantial urban regeneration funding, according to a government consultation paper, Regeneration Programmes – The Way Forward.

The paper looks at options for a future regeneration programme. These include targeting resources on the most needy areas or combining assistance for the most deprived areas with grants awarded to competing partnership projects. Alternatively, regions could determine which authorities get funds.

Cheshire

Challenges and warnings among the successes

The city of Chester has come to rival Manchester as a financial and business services centre. It is an example of how the area has adapted as traditional industries declined, says Sheila Jones

Cheshire stands out among the counties of north-west England for its success in restructuring its economy as traditional industries have declined. The county, once heavily dependent on manufacturing, defence and engineering, has become a magnet for expanding sectors such as distribution, leisure and business services.

Dynamic growth centres such as Warrington, Macclesfield and Chester have underpinned the shift to a relatively strong and diversified economy. But there are notes of caution, and there are challenges for Cheshire as it seeks to maintain buoyant growth rates while also preserving and improving its environment. Cheshire is a county of outstanding natural beauty, but increasing demand for commercial and industrial space, coupled with a rising population, are putting pressures on Green Belt land and on already congested urban centres.

The county has outperformed the UK average in recent years in terms of low unemployment, output growth and average incomes. The county is likely to achieve cumulative output growth of 15 to 17 per cent between 1994 and 1999 against 13 per cent for the UK as a whole, according to the Henley Centre for Forecasting.

Unemployment dropped to 4 per cent in September against 5.9 per cent for the north-west and 5.2 per cent nationally. However, economists expect employment to continue to grow at a slower pace than output growth, as manufacturing continues to decline. Cambridge Econometrics is predicting output growth of 2.7 per cent a year up to 2010, while it expects employment to grow by 1.2 per cent a year.

Just over 22 per cent of the workforce is employed in manufacturing, which is dominated by chemicals and pharmaceuticals; 23 per cent are employed in distribution, catering and hotels; 18 per cent in financial services; and 20 per cent in public administration, education and health.

New jobs are expected to come primarily from service industries, which have expanded rapidly in recent years. David Kern, chief economist at National Westminster Bank, points to the "unusual strength" of catering, leisure and business services.

Between 1981 and 1991, retail catering and leisure activities grew by around 35 per cent. Financial and business services saw "a massive 104 per cent rise", double the national rate of increase.

Chester, the county's 'capital' has come to rival nearby Manchester for its concentration of financial and business services. The sector increased its workforce in the county overall from 60,800 to 68,900 between 1991 and 1995, and it has continued to expand in Chester and Macclesfield in particular.

Services as a whole employ just over 70 per cent of Cheshire's workforce.

Warrington, which lies at the centre of the county's transport network, has grown into the distribution and warehousing capital of the north-west, if not the UK. Among the biggest local operators, Safeway, the stores group, serves the north of England and the north Midlands from its Warrington site. Distribution and service industries combined employ more than one-third of Cheshire's workforce.

National and global companies are drawn to the county by factors such as skill and educational standards, the quality of life, and location. About 20 per cent of Cheshire's top 500 companies are owned by non-UK parents, predominantly from France, Germany, Ireland, the Netherlands and the US.

Transport links are dominated by four linked motorways, providing north-south and east-west road access. To the east, Cheshire backs on to Greater Manchester and its airport. Rail links converge at Crewe to the south.

Yet while the county enjoys higher levels of affluence and better prospects than many other regions across the UK, there is disquiet on several fronts. The pace of growth in parts of the economy has raised concern about the implications of overheating, and political battles lie ahead over future development. The Labour-led county council, eager to preserve Green Belt but reluctant to choke off growth, is proposing to restrain development in towns including Warrington and Chester.

At the same time, there is concern that economic growth is not reaching all parts of the county. While incomes for the top fifth of individuals rose by 49 per cent between 1979 and 1991, incomes for the bottom fifth rose by only 3 per cent. To the north and west of Cheshire, manufacturing employment continues to decline, and these less central areas are failing to attract new and growing industries.

The county is trying to address the issue with training initiatives for low-skill areas, and it pledges in its latest economic strategy statement to try to extract "the maximum grant aid from European programmes". Parts of the county have Objective 2 status for EU regeneration funding. But past development indicates that new and growing employers want to operate from areas of established success, where skills, transport and other services are readily accessible.

A further challenge for the county will come next year with the loss of Warrington and Halton, which become unitary authorities under local government reorganisation. Many of Cheshire's biggest employers, including ICI and Zeneca, will be lost to these new authorities, and the county will become less export-oriented. The largest concentration of employers in the county's top 500 companies is in Warrington, Halton, Chester and Macclesfield. Nearly 60 per cent of the top 500 are exporting companies. The remainder of the county will become dominated by small and medium-sized enterprises.

John Collins, leader of Cheshire County Council, believes the county will have to pay special attention to the needs of these small and medium enterprises because of their greater vulnerability to economic instability and to more local problems such as access to funding for expansion, late payment of debt and the costs of implementing national legislation.

Mr Collins believes, that despite forecasts of continuing strong growth, Cheshire cannot be complacent. "There are only two regions in the UK that are performing better than the European average, and the north-west is not one of them," he says. "Cheshire is one of the better parts of the north-west, but it is still not in the top flight in Europe."

LOCAL GOVERNMENT

Change likely to prove expensive

ALthough reorganisation will see the county's population fall, services have to be maintained. Alan Pike reports

There has been much talk this year about "new Cheshire". This is not a marketing promotion, but a description of the radical change that local *government reorganisation* is about to bring to the administrative and political shape of the county.

Next spring, the districts of Halton and Warrington will cease to be part of Cheshire County Council's responsibilities and become all-purpose unitary authorities in their own right, taking over front-line, expensive activities including education and social services.

In Scotland and Wales, all local government services are now provided by unitary authorities. But a review of English local government produced a piecemeal outcome. Some big towns and other urban areas that were formerly parts of counties will, like Halton and Warrington, gain their "independence", while others will remain within a two-tier structure.

Nationally, the review process led to most county councillors arguing for retaining two-tier arrangements and district councillors favouring unitary authorities. Cheshire was no exception, with the county opposing change and warning of negative financial and other consequences.

The county council will not finalise its 1998-99 budget until February. But it has estimated that reorganisation could increase the average "new Cheshire" household's council tax bill by about £100. And, following this month's government announcement of 1998-99 grants to local authorities, the county is also warning of serious cuts in services.

"New Cheshire's" *population will decline from* around 980,000 to 668,000 with the loss of Halton and Warrington. Although the reconstituted county council will employ fewer staff, it will have to provide the same range of services as now, and believes it will be disadvantaged in the distribution of government grant to pay for them.

"It has to be said that the worst fears the county council had about the likely outcome of local government reorganisation are coming true," says Paul Findlow, Conservative leader. "But the fact that we were right is no consolation to the thousands of individuals who face higher bills for poorer services."

Until last May's council elections, no single party had a majority on the county council, which was run by an unusual Conservative-Liberal Democrat alliance. Since May, Labour has enjoyed a brief period of outright control. But the county will revert to being "hung" when Halton and Warrington representatives leave it in the spring – and, *with the loss of the two* urban areas, it will become far more difficult for Labour to regain control in the future.

But if next year's reorganisation is being viewed with a degree of apprehension in Cheshire county hall, there is a more positive spirit in Halton and Warrington as they prepare to launch their unitary councils.

John Gartside, leader of Labour-controlled Warrington, is convinced that the reorganisation will bring many benefits. "Counties have become too small for strategic planning purposes," he says. "I see unitary authorities that can provide services close to their electorates, combined with a stronger regional dimension, as the way forward."

Warrington council moved outside the conventional local government management network in its search for a chief executive to set up and run the unitary authority. Steven Broomhead, for the past three years principal of Warrington Collegiate Institute who has always worked in the education field, has been appointed.

He says he was cheered at a meeting of local small business representatives when they learned that he came from outside local government. Mr Broomhead gained a reputation for bringing a clear business focus to his duties as a college principal. As chief executive of the unitary council he will be the town's biggest employer, and says he wants the council to both learn from business – *particularly in areas such as* customer care – and encourage its continued investment in Warrington.

Warrington council already has a positive reputation for its involvement with business. The authority stages the successful annual Business Connections exhibition – an important inward investment showcase for the north-west – and is currently involved in the development of an International Business Centre in the town.

A particularly striking demonstration of the Labour council's commitment to partnership with the private sector came recently when its economic development unit – which promotes a range of overseas trade missions among its business support activities – was admitted to membership of the Confederation of British Industry.

Chester benefits from being a significant tourist attraction, but it has also become a leading financial and business centre

Photo: Ashley Ashwood

BUSINESS AND FINANCIAL SERVICES

Quality of life is key factor

Sheila Jones tells of the attractions for some of the new breed of employers

Financial and business services have grown faster in the past 15 years than any other sector in Cheshire, with employment more than doubling from about 30,000 in 1982 to 70,000 today. The sector now rivals manufacturing and public services as the county's biggest employers.

Typically, Cheshire has attracted UK companies looking for administrative and telecentres outside London, and inward investors choosing cities such as Chester and Warrington as their European headquarters.

In Chester, the county 'capital', *some 18 per cent of* the workforce is employed in financial and related services. Capital Bank (formerly NWS), the Bank of Scotland subsidiary, is the city's biggest employer, with a staff of 4,000. Long-established in Chester, Capital's expansion into motor insurance created 200 jobs and the bank is planning further growth.

MBNA International, the US credit card company, is a more recent arrival. It moved into Chester in 1993 promising to employ 800 staff over five years. So far, it has taken on about 1,200 and is hoping to employ a further 2,000 in the next five years. MBNA's £42m investment is the largest in the UK by a US financial institution.

MBNA's credit card call centre Chester Business Park serves about 1.5m customers in the UK, its biggest market in Europe.

"We looked at these kinds of sites throughout the UK," says Paul Campbell, communications manager at MBNA. "First, we found the people here were right. They are friendly – a typical north-west attribute. Then we looked at the quality of educational facilities. With universities in Liverpool, Manchester and the north Midlands, there was a plentiful supply of graduate-calibre staff. And the universities in the north-west are very commercially aware – they can see the sector growing around them so they will be producing for the sector."

While manufacturers need to be near their markets and customers, employers opening call centres and administrative offices can be more selective.

"Technology means location for investment services is no longer critical," says David Cassidy, chairman of Nelson Money Managers and a director of Imro, the regulatory body. "In Chester, we have the access to the same information facilities and abilities as a London house, and the attraction of life in Cheshire as well."

Marks and Spencer located its new financial services division in Chester in 1985 partly because of commercial links with Capital Bank and because the costs of setting up in London or the south-east would have been higher with less opportunity for expansion, says Chris Larkin, M&S Financial Services media relations manager. The company employs 1,200 people in Chester. It recently almost doubled its space there, expanding by 80,000 sq ft.

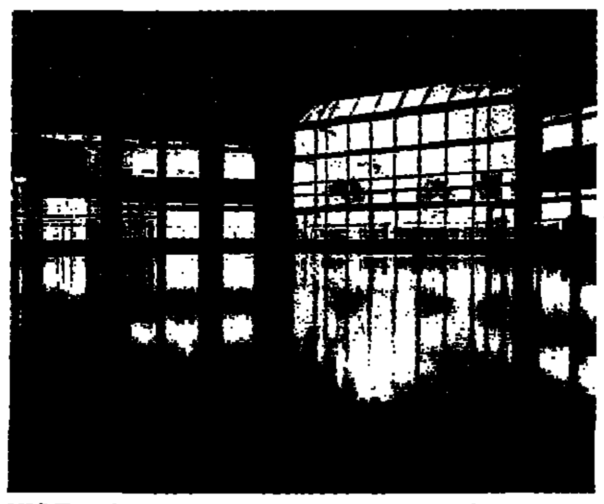
The quality of life in Chester is a "well kept secret", says Mr Larkin, who moved north from London earlier this year. "The city was a big draw. It's a beautiful location. That's important for staff because the quality of life outside work affects the way you operate."

Among other firms in the sector, Prudential Assurance, employs about 200 staff at its regional headquarters in Chester, processing motor and domestic insurance, and Halifax bank (the former building society) has invested £9m in a customer service centre in the city.

In a recent report on the sector, Business Strategies, the economic consultancy, says Cheshire now rivals Manchester as a centre of employment in financial services. Melanie Lansbury, a senior economist at Business Strategies, warns, however, that the sector's "phenomenal growth" means employers may in future have difficulty recruiting staff at current pay levels. "One worry is that shortages of labour could push up labour costs, although the evidence is only anecdotal so far," she says.

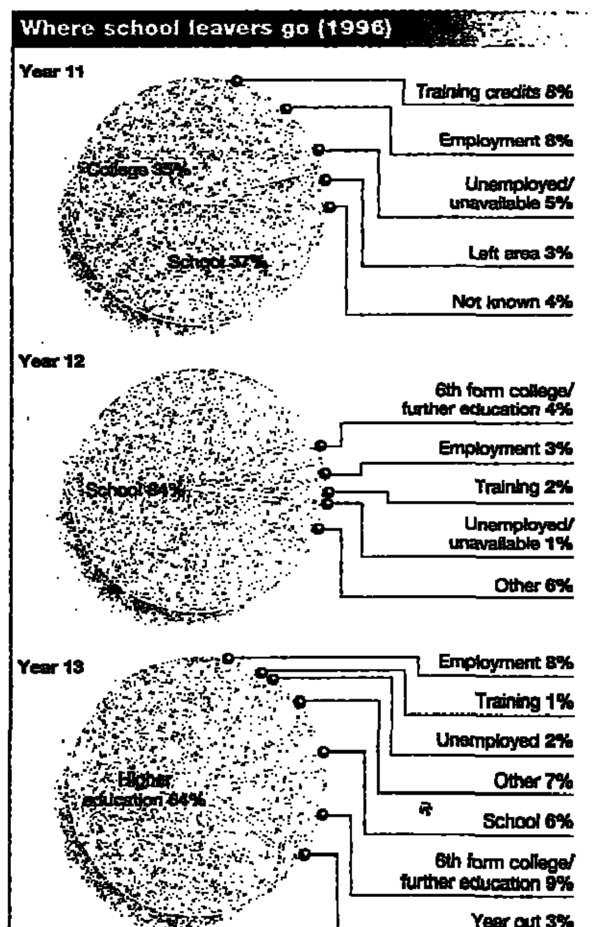
Chris Larkin acknowledges there are signs of a tightening in the labour market. "At the skilled end things have become slightly more difficult but we are still attracting staff."

Cheshire County Council, in its latest economic assessment, says the sector is likely to continue growing, with the largest employers promising expansion beyond the millennium, although it warns the rate of development is unlikely to match the dizzy growth of the past decade.

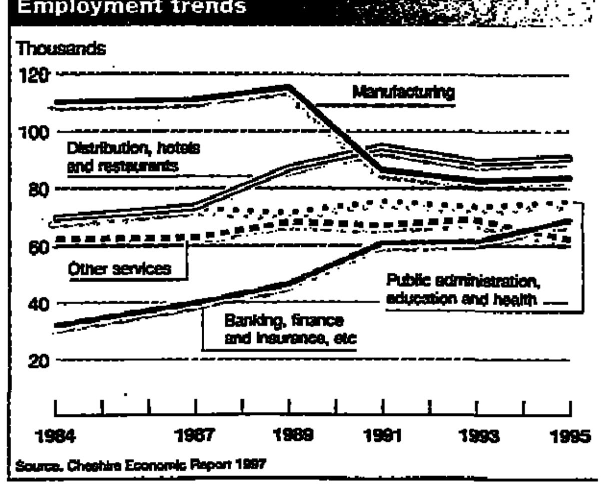


M&S Financial Services employs more than 1,200 at Chester

Where school leavers go (1996)



Employment trends



Source: Cheshire Economic Report 1997

Inward investment

WALES

Success is driven by many parts

The Welsh were quick to build up a car components industry when coal and steel jobs were lost. **Juliette Jowit** reports

Ford Motor has been a big investor in Wales. Its plants include Swansea (above) and an engine factory at Bridgend

Wales has discovered its new coal or steel: automotive components – an industry which directly or indirectly employs one in four people in manufacturing jobs.

Next to the West Midlands, the principality has the second-biggest industry in the UK, worth £1.7bn a year and growing at a rate of 17 per cent.

The auto components industry first put down roots in south Wales just after the second world war when George Kent, now TRW, started making steering systems.

It gathered pace in the 1970s when US and Japanese manufacturers looking for a European base were attracted to the relatively free market in the UK.

Wales, especially in the last 10 years, attracted a growing share of the expanding industry with a combination of good labour relations, a skilled workforce, low wages, high productivity and financial incentives.

The industry is now one of a handful to have a dedicated division of the Welsh Development Agency, headed by Penny Mitchell.

She and her team, among other things, are charged with spreading the benefits of the leading investors such as Ford, Toyota, Calsonic, Valeo, Lucas and Bosch to companies and communities across the principality by encouraging small companies to bid for work from them.

"Quite a few" jobs in the industry are high skilled, particularly in the electronics side, but not enough, says Mrs Mitchell, who is keen to encourage more R&D in particular.

Among the recent successes in this field are north Wales-based Henrob, which has developed leading edge fastenings contacts for manufacturers such as Audi, and Pilkington Electronics, which is working on new displays and night vision for Jaguar.

In south Wales, Alloy Wheels has patented a new process for casting ultra-lightweight aluminium wheels which is being aimed at the volume market, and Trico has developed a special windscreen wiper for snow.

Ford has invested more than £5m in a special training centre for its employees, and other companies are spending millions of pounds on on-site skills development.

To encourage more activity such as this – an important factor in keeping Wales at the forefront of the industry, says the WDA – the agency has a number of initiatives, such as the First Vehicle Project, which studies industry trends and tries to identify where the greatest potential for research and development lies. Target areas now include engine controls and road pricing.

Another attraction of Wales has been its easy access to markets: the country is within three hours' drive of 26 of the UK's 29 vehicle engine plants and 95 per cent of sales are direct to vehicle manufacturers.

Half of all businesses in the industry supply Ford or Rover, but all the main UK and European manufacturers are served from Wales, and exports make up more than one-third of sales.

Not being dependent on any one big manufacturer has helped encourage greater growth in the Welsh industry, claims Professor Garel Rhys, a world-renowned auto industry expert at Cardiff University Business School.

"The competitive companies are supplying more than one plant, more than one company, probably more than one country, so they are also spreading any risks quite nicely," he says. The result is almost every part of the automotive industry has a stake in Wales, with particularly big clusters in chassis, suspension, brakes and steering, engines and exhausts, heating, ventilation and air, and plastic, rubber and trim.

All the elements are there, but there are no car assembly plants in the principality – something the WDA is considering how to rectify.

"The idea is to try to have a Welsh concept car using all the expertise we have, particularly in the materials, electronics and other components," says Mrs Mitchell. "We could actually have a go at building on the concept car for the future."

Beyond this, other industries in Wales are also reaping the benefits of the auto components sector's success.

The WDA's Source Wales programme is helping local companies benefit as much as possible by encouraging components manufacturers to use local suppliers. It is also working with the TRW car manufacturer on a joint venture – the first dedicated automotive supply park next to the company's operation in south Wales.

MERSEYSIDE

Smaller businesses find a saviour fund

Ian Hamilton Fazey discovers how the difficulties of attracting finance in a problem area were overcome

An experimental investment fund for small and medium-sized businesses (SMEs) on Merseyside is proving so successful after one year's operation it is being watched as a possible model for the transitional economies of central Europe, the former Soviet Union and the EU.

Merseyside Special Investment Fund (MSIF) is channelling some of the area's Objective One money from the European Union into small and medium-sized businesses. Many such SMEs could not raise finance easily because of funding gaps and a shortage of confidence in the area among banks and venture capitalists.

There are now three funds under the MSIF's umbrella: a £10m one for equity finance, a £10m one for mezzanine loans – which are unsecured or have a low priority for repayment if a business fails – and a £5m one for small loans to small businesses, particularly in inner city or difficult areas, where banks shy away because of lack of security and risky location.

Most of the money has come from the European Regional Development Fund and the UK government, which have put in £5m each. Another £4m is from the Merseyside local authorities' pension fund, and £1m from Pilkington's pension fund. Loans are operated by Barclays, supported and underwritten by the European Investment Bank. Two local Liverpool funds contribute £500,000 to the small companies' pot, earmarked for use in Granby, Toxteth and Dingle, the disadvantaged inner city postcode areas of L4 and L8 notorious for the city's 1981 riots.

The three MSIF funds have made 130 investments since August 1996, most of them in the last nine months. About £5m has been committed so far, but this has levered £19m from private equity providers and banks. More than 700 existing jobs have been secured and nearly 500 new ones created.

MSIF's guarantors have helped build confidence. They are led by the Bank of England, which provides Neil Kemsley, its agent in the region, as chairman. The rest comprise Liverpool Chamber of Commerce and a partnership of Merseyside's five borough councils, the Confederation of British Industry, the Trades Union Congress, Liverpool's two universities, and professional bodies such as the local society of chartered accountants.

To ensure performance, MSIF has outsourced each fund to experienced specialists regulated by IMRO. Innvotec, a London venture capitalist, manages the equity fund, Enterprise Ventures, part of the former Lancashire Enterprises, is in charge of the mezzanine one, while the small firms fund is run by BCE Fund Managers, which used to be part of the now-privatised British Coal Enterprise.

All are co-ordinated by Stephen Burton, MSIF's chief executive, a Liverpool-born accountant who has worked in London and Nigeria and has extensive general management experience in the engineering, container leasing, wire, timber and building products industries.

The most innovative aspect of MSIF's operations, however, arose from EU pressure for it to give subsidised loans at 5 per cent to the companies it backs. "I was not prepared to have the word subsidy mentioned," Mr Kemsley says. "We are not here to give away cheap money. There is no point in backing businesses which are not commercially viable. They have to be sustainable in the long term. We were, however, prepared to reward people for success."

The result was a compromise that has impressed Eurocrats and could certainly work elsewhere. Companies have to borrow at 14 per cent, but they get two-thirds of the interest back as a bonus each year if they meet agreed performance targets and keep up interest payments. Three-quarters of the rebate is met by the EIB, the rest from the UK government's urban funding programme.

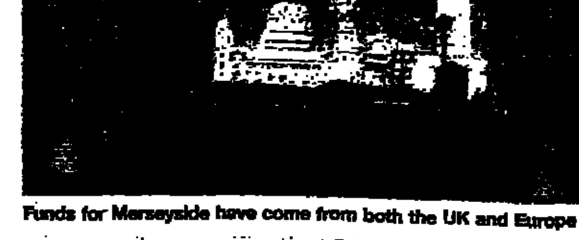
Such a hard-headed approach has been good for MSIF's professional image, helping syndication of bigger venture capital and loan packages among normal commercial providers who can be confident MSIF is not just a soft touch for suspect businesses. Mr Burton has also helped ensure the quality of applications by having them filtered through Merseyside's professional services network first.

"The result is that our managers have been surprised at the quality of deals there is around," he says. "We ourselves have been surprised to find the market is much larger than we thought at the small end. We are looking to double the size of the small firms' fund."

This suggests considerable latent demand, which straight commercial lenders may have been reluctant to meet because of Merseyside's past image of decline and risk. It is a chicken-and-egg conundrum for any area which needs to demonstrate successful entrepreneurship to fuel a virtuous circle of regeneration, but cannot get enough private sector financial support until it does. MSIF is therefore a demonstration vehicle for confidence from which other struggling areas of Europe can learn.

One of its most important syndications so far was a £1.2m deal, led by 3i, with MSIF putting in £200,000, to bring in a substantial piece of inward investment in the shape of Restaurant Express. The company has set up a national call centre in Liverpool to take orders for meals which are then home-delivered from local networks of normal – rather than specialised fast-food – restaurants around Britain. It has already been back for a second tranche of funding from MSIF and 3i because expansion has been so rapid.

MSIF's latest investment was a more mundane combined management buy-in and buy-out last week at HPL Jars & Containers in Liverpool, which makes plastic tubs for supermarket giants across Europe. It was thinking of leaving Liverpool until MSIF made it easier to stay. About 90 jobs have been saved for the local economy.



Funds for Merseyside have come from both the UK and Europe

FINANCIAL TIMES
COMPANIES & MARKETS
©THE FINANCIAL TIMES LIMITED 1997 Thursday December 18 1997 Week 51

THE EUROMONEY INTERNATIONAL
BOND CONGRESS
A unique event for all bond market professionals

INSIDE

Report calls for free gold trade

Allowing gold to be traded freely would benefit many countries, according to new research. The study says there are only two genuinely free gold markets in the world: Dubai and Hong Kong. Every other country imposes either fiscal or legal restrictions on the trade. Page 22

Alitalia picks KLM as European partner

Alitalia, the Italian national carrier, is poised to end the battle over its choice of a European partner by announcing it has opted for KLM Royal Dutch airlines. There had been speculation that it would opt for a "political" deal with Air France. But Domenico Cempella *(left), Alitalia's chief* executive, is understood to have argued that such a move would undermine plans to privatise the airline next year. Page 18

From model aircraft to jets

In an illustration of how Taiwan is re-engineering its economy, one of the world's leading manufacturers of radio-controlled model aircraft has landed government contracts to develop jet engines. Taiwan is keen to foster an aerospace industry and is encouraging manufacturers to begin by making components. Page 16

Indian shares stage modest recovery

Indian shares – battered by the collapse of the government, a slide in the rupee and the general withdrawal of funds from Asian markets – are staging a modest recovery, although investor confidence remains fragile. Page 32

Companies in this issue

3M	14	ICO	13
ADM	14	Intel	14
AGF	11	Inter-American DvBnk	20
Acme Metals	20	Ishihara Sangyo	13
Aegon	18	KLM	18
Air France	18	*KNP BT*	18
Alitalia	18	KPMG	14
Allianz	11	Kao	16
Amerada Hess	18	Kvaerner	18
Andersen Consulting	1, 14	Lai Sun Development	6
Andersen Worldwide	1, 14	Mannesmann Arcor	18
Arthur Andersen	14	MasterCard	2
Asia Television	6	Merrill Lynch	16
AssiDomän	18	Microsoft	14
Axa	11	Mol	18
Bayerische VB	18	Mulberry	28
Bunge International	20	Nava Securities	16
CNAC	16	Nokia	18
CSFB	14	Nycomed Amersham	28
Caspian	19	Oasis Stores	28
Coats Viyella	19,28	PanaCobre	22
Cook (William)	19	Pearson	19
Cookson	19	Price Waterhouse	14
Coopers & Lybrand	14	RWE	18
Credit Suisse	11, 2	Raba	18
Credit Suisse Group	14	Rabobank	18
Daiei	13	SKF	2
De Beers	22	SMSP	22
Deloitte Touch Tom.	14	Sadia	14
Deutsche Telekom	18	Saga Petroleum	18
Diageo	28	Sanwa	16
Dofasco	13	Sappi	18
Dresdner Bank	18	Silicon Graphics	14
EdF	4	Société Générale	2
Eramet	22	Sun Microsystems	14
Ericsson	18	Swiss Air	18
Ernst & Young	14	Swiss Bank	2
Estag	4	TRW	13
Eurotherm	19	The Timber Company	14
FGH Bank	18	Thunder Tiger	16
Fairmont Hotels	16	Timken	14
Falconbridge	22	Tiomin Resources	22
ForeningsSparbanken	18	Triplex Lloyd	19
General Motors	12	UBS	2
Generali	11	Usinor	13
Georgia-Pacific	14	Veba	18
Goss Graphic Systems	14	Vicker Ballas	16
Great Eagle	16	Yamaichi Investment	16
		Zeneca	13,28
		Zurich	11

Market Statistics http://www.FT.com

♣Annual reports service	26,27	FTSE Actuaries share indices	28
Benchmark Govt bonds	20	Foreign exchange	21
Bond futures and options	20	Gilts prices	20
Bond prices and yields	20	London share service	26,27
Commodities prices	22	Managed funds service	23-25
Dividends announced, UK	19	Money markets	21
EMS currency rates	21	New Intl bond issues	20
Eurobond prices	20	Bourses	30,31
Fixed Interest indices	20	Ofex Recent issues, UK	28
FT/S&P-A World Indices	29	Short-term int rates	21
FTSE Gold Mines Index	28	US interest rates	20
Emerging Market bonds	20	World stock markets	29

CROSSWORD, Page 22

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Amb Aach Mun	190.5	+	21.5
Volksfursorge	810.0	+	88.0
Wella	1235.0	+	85.0
Falls			
Eurobike	30.2	–	2.3
Deutz	12.65	–	0.6
Linotype Hell	62.0	–	3.8
NEW YORK ($)			
Rises			
Green Tree	25¼	+	3¼
Lexmark Intl	33¼	+	2¾
Sony	90½	+	6¼
Falls			
Best Buy	34½	–	2½
CNF Trans	39¾	–	3½
Fair Isaac	31¾	–	9½
LONDON (Pence)			
Rises			
AEA Tech	527½	+	23
Scruttons	310	+	40
Falls			
Abbey Natl	1103	–	44
Elec Retail	267½	–	52¼
Land Improvm	90½	–	18
Oasis Stores	130	–	56
TORONTO (C$)			
Rises			
Aber Res	15.45	+	1.45
Sulzbaum Res	7.25	+	1.85
Natl Sea Prod	7.75	+	0.75
Falls			
Plains Energy	9.0	–	1.0
Salix Hldgs	6.0	–	0.6
Taklogix Intl	2.25	–	0.4

PARIS (FFr)			
Rises			
Maxi Livres	37.8	+	6.6
Metal Deploye	340.0	+	30.9
Crayeux	44.0	+	3.9
Falls			
Forinter	627.0	–	371.0
Cycnes	25.0	–	3.0
Marocaine	85.9	–	10.0
TOKYO (Yen)			
Rises			
Daiwa House	858	+	54
Isetan	609	+	64
Koito Manf	475	+	45
Teijin	286	+	33
Falls			
Japan Radio	860	–	34
Sandee	607	–	43
HONG KONG (HK$)			
Rises			
Cheung Kong	50.75	+	2.25
China Light	42.0	+	1.3
Citic Pacific	31.2	+	1.1
HSBC Hld (5)	185.0	+	8.0
Hang Seng Bk	73.5	+	1.75
Shanghai Indl	30.0	+	2.3
BANGKOK (Baht)			
Rises			
Bankqalkong	13.0	+	3.0
Thai Glass	39.25	+	9.0
Thai Toray	40.0	+	8.25
Falls			
Phoenix Pulp	8.2	–	3.05
Utd Motor	27.5	–	8.5
Yongthai Chem	8.9	–	2.4

New York and Toronto prices at 12.30pm.

TRW to acquire equity in ICO

Move marks consolidation in satellite-based mobile phone sector

By Alan Cane in London

TRW, the US industrial group, is to acquire an equity stake in ICO Global Communications. The move marks the beginning of consolidation in the youthful satellite-based mobile phone industry.

The tie-up, announced yesterday, means the end of Odyssey, one of a number of consortia racing to build the first system capable of allowing calls to and from a pocket telephone to anywhere on earth. TRW was leader of the Odyssey consortium in conjunction with Teleglobe, a Canadian telecoms operator.

It also means that ICO will have a strong ally in its attempts to find a way round a $1bn charge proposed by US authorities to compensate US users of radio frequencies, which will have to be reallocated if ICO is allowed to operate over the US. TRW said it intended to return its operating licence for the Odyssey system to the US Federal Communications Commission and focus on assisting ICO to obtain authority for its system to operate in the US and elsewhere.

TRW at one point attempted unsuccessfully to secure patents that would have given it exclusive rights to a satellite orbit 10,000km above the earth. It has since started litigation against ICO alleging patent infringement. ICO has counter sued.

Under the deal, TRW will receive 1.5m ICO shares with a face value of $150m, representing a seven per cent stake in the London-based company. In return, TRW will work with ICO on the satellite project, sharing technical expertise. The two companies will grant each other cross licences for their respective patents, abandoning litigation.

It is thought that the Odyssey consortium has invested about $200m in the project. It has had difficulty, however, in securing adequate funding and distributors for its services. ICO, on the other hand – through more than 55 international investment partners, including Inmarsat, the pioneer of satellite-based mobile communications, British Telecommunications and DeTeMobil of Germany – can provide direct access to telecommunications users on a global basis.

It will be in competition with: Iridium, led by Motorola; GlobalStar, led by Loral; and Ellipso, owned by Mobile Communications Holdings – all of the US.

Iridium has already launched about half its constellation of satellites into low earth orbit and expects to offer service next year. ICO plans to launch its first satellites in the latter part of next year and to offer service in 2000. All the consortia will have had to raise more than $2bn to manufacture satellites and develop their telecoms networks.

Joseph Gorman, TRW chairman, said the deal would enable TRW to participate in space telecoms at minimal risk. Olof Lundberg, ICO chief executive, said the alliance would help ICO expand in markets where TRW has substantial goodwill. "It strengthens our market position in the US by giving us an additional strong partner and access to some key vertical markets.

Japan gets first holding company since 1945

By Bethan Hutton in Tokyo

Daiei, a Japanese supermarket operator, yesterday set up the first holding company to exist in Japan since the end of the second world war. A law allowing such companies came into effect yesterday.

US-inspired regulations banned holding companies after the war as a way to prevent the regrowth of the pre-war *zaibatsu* industrial groups. Centred around banks, *zaibatsu* were thought to have too strong a hold on the economy.

Since the war, businesses have relied on complex networks of cross-shareholdings in group companies to maintain corporate links.

The holding company law passed yesterday is part of the government's efforts towards deregulation and improving the competitiveness of Japanese companies. It will increase transparency, as the tangled cross-shareholding system can make corporate relationships and group accounting methods difficult to understand.

Some restrictions remain to prevent large holding companies from acquiring too tight a grip on market segments. A holding company may not have assets of more than Y15,000bn ($115m) or annual sales of more than Y600bn. It may not control five or more companies in related or interdependent industries or where each accounts for more than a Y300bn slice of their respective markets.

Daiei said earlier this year that it planned to be the first to take advantage of the change in the law. Daiei's new holding company is to be called Daiei Holding.

Capitalised at Y75.3bn, the company will include 40 member companies of the Daiei group but will not include the Daiei supermarket chain itself or other listed or soon-to-be-listed companies. The company will have assets of about Y350bn.

Isao Nakauchi, Daiei president, will head the holding company, which will be 15 per cent owned by Daiei. The largest stake – 75 per cent – will be owned by Sakae, an unlisted company within the group.

Allianz close to securing control of AGF

By Andrew Jack in Paris and Paul Betts in Milan

Allianz, the German insurer, is on the verge of securing control of France's AGF, by agreeing a deal with Assicurazioni Generali, the Italian insurer which is a rival bidder for the insurance group.

A deal would bring to an end the takeover battle for AGF which began when Generali launched a Ffr55bn ($9.2bn) hostile bid in mid-October. Allianz followed with its own Ffr60bn-plus friendly counter-offer a month afterwards.

Under plans still being finalised, Generali is expected to abandon its bid for AGF in exchange for the right to acquire a controlling stake in AMB, another German insurer, in which AGF has a dominant 33.5 per cent stake.

Generali is also expected to buy GPA and Proxima – two subsidiaries of Athéna, a separate French insurer – over which AGF is expected to win control in the next few days. AGF is acquiring its controlling interest in Athéna as part of its friendly takeover of *Worms & Compagnie, the* French holding company.

As part of the agreement with Generali, AGF would retain control of AMB's Dutch operations. The sale of its stake in AMB is expected to generate about FFr6bn in capital gains.

Allianz would sell its 5 per cent stake in AMB to Generali and attempt to ensure that its ally, Dresdner Bank, which owns a further 15 per cent of AMB, supports Generali in the future under an arrangement which remains unclear.

The French government is likely to make a decision in the next few days to approve formally Generali's hostile bid, more than two months after it was unveiled. An approval of Allianz's friendly counter-offer could follow.

The delay in official approval for the deal is likely to trigger a new debate over the degree to which the state interfered in the takeover battle, since a far more rapid decision on the Allianz offer would give the impression that approval of the Generali bid was held up for political reasons.

There are still questions over the future control of Coface, the trade credit insurer, in which AGF holds a 57 per cent stake. Dominique Strauss-Kahn, the French economics, finance and industry minister, said recently he would find it difficult to allow the business to be controlled by a "non-French" company.

The AGF board is scheduled to meet in Paris on Friday to finalise details of the plans, while Generali's board is expected to meet soon in Milan. A Generali official said yesterday that no agreement had yet been signed. "No signature is expected today, nor tomorrow," he said.

A few weeks ago, the Italian company called an extraordinary shareholders' meeting for January 10 to approve the new debt and equity issues which it would need to enter a bidding contest with Allianz. However, it also left the way open for a negotiated settlement.

Additional reporting by Andrew Fisher in Frankfurt

Lex, Page 12
Safety at a premium, Page 11

Usinor in joint venture with Dofasco of Canada to open plant

French steel company targets US car industry

By David Owen in Paris and Stefan Wagstyl in London

Usinor, the French steelmaker, is teaming up with Dofasco of Canada to build a C$180m (US$126.5m) galvanising facility with which it hopes to achieve a breakthrough in the big US market.

The 400,000 tonne capacity plant – to be located in Hamilton, Ontario – will be mainly targeted at the North American car industry, to which it will supply galvanised sheet manufactured under the French group's Extragal process. Start-up is expected in mid-1999.

It will be the first time this product – which has sold well in Europe, where Usinor is the largest supplier of steel to the automotive industry – has been made available to the big Detroit carmakers on their home turf.

The French company's advance will increase competition in North America where steel companies are being thrust together by tough trading conditions. This week, *Bethlehem Steel, the second* largest US steelmaker, agreed to pay $400m for Lukens, a specialist manufacturer of plates and stainless steel.

US Steel and Inland Steel, two other large makers, held inconclusive merger talks this year.

Francis Mer, Usinor chairman, described the move as "a significant demonstration" of the company's strategy of trying to "globalise our strong points". He said the choice of Extragal was "at the request of our Canadian partner who recognises that Extragal is the best in the world".

The Usinor chairman said that, as a result of yesterday's agreement, the group would have three similar plants in operation by the end of the century – in France, Spain and Canada. The Spanish plant, near Valencia, was expected to come onstream in late 1999.

Under the Canadian deal, Sollac, a fully-owned Usinor subsidiary which is the European leader in flat carbon steels, will have up to 30 per cent of the joint project, to be supplied mainly by Dofasco.

This has been a mixed year for Usinor, which reported a small year-on-year decline to FFr801m ($134m) in first-half net profits. In July, it lost out *to Arbed of Luxembourg in the* bidding for a Spanish government stake in Corporación de la Siderúrgica Integral.

The company's financial performance is picking up, however. Mr Mer has already forecast that 1997 full-year results would show an improvement *from the previous year* when net profits reached FFr1.49bn. He is now "quite sure that the beginning of next year will be quite agreeable".

In spite of the Spanish setback, Usinor still hopes to play an active part in the continuing consolidation of the European steel sector.

The company is widely seen as a possible partner for Cockerill Sambre should the Belgian group decide to forge an alliance.

Another door opens: Usinor chairman Francis Mer indicated it would open three more plants by the end of the century

Zeneca in $500m deal to strengthen agrochemicals

By Daniel Green in London

Zeneca, the UK pharmaceuticals company, yesterday signalled its commitment to the agricultural sector by paying $500m for a US fungicide business owned by Japanese chemicals company Ishihara Sangyo Kaisha.

The deal would allow Zeneca to challenge its rivals in the $32bn-a-year agrochemicals market, said Michael Pragnell, chief executive of Zeneca agrochemicals.

The company, with 1996 sales of $2.6bn a year, is currently third behind Monsanto of the US on $3bn, and Switzerland's Novartis on $4.3bn.

Following the deal, Zeneca will manufacture and distribute a fungicide called Chlorothalonil. It will be sold alongside Amistar, Zeneca's new fungicide.

Although Chlorothalonil is an old chemical that has lost patent protection, Zeneca hopes that using it alternately with Amistar will kill fungi that have become resistant to Amistar.

The Ishihara Sangyo Kaisha business made pro forma operating profits of $43m on sales of $240m in 1996. The purchase price is $410m, with another $90m paid for distribution rights of which $25m is conditional on regulatory approval for some new products.

Zeneca shares rose 49p to £20.77.

Nigel Barnes, pharmaceuticals analyst with stockbroker Merrill Lynch, in London, said it was a good deal for Zeneca.

"Zeneca paid about 1.7 times sales for a business that typically goes for three or four times sales. Margins of 18 per cent mean that earnings will be enhanced and there will be cost savings of about $35m a year," he said.

Zeneca's determination to stay in agrochemicals contrasts with some rivals that have decided to sell out in light of the strength of Monsanto and Novartis, partly based on the application of genetics research.

Mr Pragnell said the deal should be seen in the context *of the company's acquisition* earlier this year of Dutch plant biotechnology company Mogen. That deal would take the company through to "second generation" genetically engineered crops that would have built-in resistance to frost or disease.

The Chlorothalonil acquisition will have its effect much sooner, taking Zeneca from number eight in the world fungicide sales rankings to number one by 2000, according to Mr Pragnell.

This will mean overtaking the industry's giants including Du Pont of the US and German companies Agrevo, BASF and Bayer.

The acquisition would be earnings neutral next year, said Mr Pragnell, because of a $35m restructuring change to be spent largely on job cuts.

The business employs about 500 people, 400 in North America, the rest in Latin America.

It has a manufacturing site at Greens Bayou, near Houston in Texas, and administration at Cleveland, Ohio.

Lex, Page 12

Further management moves at CSFB

By William Hall in Zurich

Credit Suisse group has reshuffled the top management of its Credit Suisse First Boston investment banking arm for the second time in 18 months. Allen Wheat, 49, who founded the group's successful derivatives business, is promoted chairman and chief executive.

Mr Wheat, who will split his time between New York and Zurich, replaces Hans-Ulrich Doerig, 57, a Credit Suisse veteran who was appointed chief executive of Credit Suisse First Boston last year.

Mr Doerig has been given the job of chief risk officer of the Credit Suisse Group, filling a gap left by Walter Knabenhans, 47, who has joined Julius Baer, Switzerland's biggest independent private bank.

Mr Doerig has been promoted to vice-chairman and retains a position on the executive board, unlike Mr Knabenhans.

The appointment of Mr Wheat, who was passed over for the top job at CSFB in last year's reshuffle, is the first significant appointment since Lukas Mühlemann, 47, a former McKinsey management consultant, took over as chief executive of Credit Suisse at the start of 1997.

CSFB employs more than 11,000 staff and claims to be one of the world's top three securities concerns in terms of its $21bn of capital.

In the 1997 first half, it increased pre-tax profits by 50 per cent, but its ranking in the US league tables for the share of straight bond issues and equity offerings belies its claim to be a "bulge bracket" firm in the US.

Meanwhile, in Europe it appears to have been overshadowed by the comparative success of SBC Warburg, the investment banking arm of its smaller Swiss rival.

Mr Doerig, who has a reputation as one of Credit Suisse's troubleshooters, has overseen the successful amalgamation of the group's international operations with the old CS First Boston. However, Mr Wheat's promotion is a sign that Mr Mühlemann is intent on bringing on a new generation of younger bankers to drive the business forward.

Meanwhile, Robert O'Brien, 54, head of global corporate banking and structured finance at CSFB, has been appointed CSFB's chief credit risk officer. He replaces Christopher Roberts, 59, who is retiring.

ADM buys soya processing business

By Jonathan Wheatley in São Paulo

ADM, the Illinois-based agricultural trading group, has agreed to buy the soya processing business of Sadia, Brazil's biggest meat processor, for about $165m.

It marks a further step in the consolidation of Brazil's soya industry and follows ADM's announcement in May that it would buy soya handling and port facilities in Brazil and Paraguay from Glencore International.

The value of the Sadia deal, which covers four processing plants with combined capacity of 1.8m tonnes a year and 12 warehouses, is based on asset and stock values at the end of October and may be adjusted before completion, expected in the next month.

ADM confirmed the deal had been agreed but declined to comment further.

Arléu Aloísio Anhalt, market relations manager at Sadia, said the sale would enable the group to concentrate on its core branded meats activities.

"Our margins are much higher in branded meats, where we have the competitive advantages of a strong brand and good distribution, than in commodities, where we are competing more and more with big international groups," he said.

The company's annual turnover would fall from about R$3.1bn (US$2.8bn) to R$2.6bn as a result of the sale.

Paper group separates timber

By John Authers in New York

Georgia-Pacific, the Atlanta-based paper and timber company, yesterday launched a separate class of stock – known as The Timber Company – as part of its complex plan to raise shareholder value.

Under the plan, shares in The Timber, which will track the company's large forestry business, were issued to Georgia-Pacific shareholders on a one-for-one share basis, at a price of $25. Earnings from this business are more stable than from the company's other businesses, which are highly exposed to commodity price fluctuations, so the exercise should bolster value for shareholders.

The shares were among the most actively traded in morning dealing on the New York Stock Exchange. The price fluctuated, and by mid-session the shares were trading slightly below their opening price.

Shares in Georgia-Pacific itself, which will continue to reflect the company's main pulp, paper and building products businesses, enjoyed a strong morning, gaining $3⅞, or more than 6.25 per cent, at $63⅝ by mid-session.

Chip Dillon, paper analyst at Salomon Smith Barney, opened coverage of The Timber with a recommendation that it would outperform the market, and predicted that the shares would reach $32 within 12 to 18 months. He said earnings per share for The Timber would be helped by modest increases in timber prices.

The move helped to counteract growing evidence that the Asian financial crisis has seriously affected the North American pulp and paper industry.

Microsoft and Silicon Graphics agree alliance

By Paul Taylor

Microsoft, the world's largest software group, and Silicon Graphics, the graphics workstation specialist, are to combine their technologies to create a new graphics standard for Microsoft's Windows operating systems.

The two companies will combine Silicon Graphics' OpenGL and Microsoft's DirectX technology to create a new high-performance graphics standard, called Fahrenheit.

The deal represents breakthrough for Microsoft, which has positioned its Windows NT operating system as a standard for corporate computing, including engineering design.

Microsoft said it had planned to use the technology in its flagship Windows NT software, but would also now incorporate it into its general purpose Microsoft Windows 95/98 operating system and Windows CE software designed for hand-held computers and other consumer devices.

However, the deal is also seen as a high-risk defensive move by California-based Silicon Graphics, whose financial performance in the past two years has disappointed Wall Street. In October, Edward McCracken, chairman and chief executive, said he would step down as chief executive.

Silicon Graphics is best known for its high-performance, graphics-intensive computers built around its proprietary technology. They are used by engineers to design cars and spacecraft, and by special effects experts for films like *Jurassic Park*.

However, the company has found its market share under attack in recent years from cheaper machines built around standard Intel microprocessors running Windows NT. Earlier this year, Silicon Graphics surprised the industry by announcing it would enter the Intel-based workstation market in mid-1998.

The agreement between Microsoft and Silicon Graphics comes less than 24 hours after Sun Microsystems announced that it had signed a co-operation and cross-licensing agreement with Intel.

Under that agreement, Intel and Sun will work together to develop a version of Sun's Solaris operating system which will run on Intel's next-generation Merced microprocessor.

Intel's agreement with Sun is seen by industry analysts as an attempt to reduce its reliance on Microsoft Windows NT.

AMERICAS NEWS DIGEST

3M warns on strong dollar

Minnesota Mining & Manufacturing (3M) yesterday joined the growing list of US companies warning that the strong US dollar and the international economic hiatus in Asia and South America would depress profits.

3M, which has manufacturing operations ranging from medical products to floor coverings, said the increasing strength of the US dollar would "have a large negative impact on results" for the fourth quarter of 1997. "3M estimates that currency effects will reduce fourth-quarter earnings by more than 10 per cent," it said. Livio DeSimone, 3M's chairman, said: "Economic weakness in Japan, Asia and Brazil, as well as more moderate US sales growth are holding back fourth quarter sales and profit gains." Overall, the company estimated its fourth-quarter earnings would only be "similar" to the final three months of 1996, when it made $375m after tax, or about 90 cents a share. That was well below the $1 a share analysts had pencilled in for the final three months, according to First Call, with the average estimate for 1997 overall standing at $4.05. Shares in 3M tumbled on Wall Street yesterday, falling by $6⅛ to $87⅞ by mid-morning – a loss of more than 6 per cent. *Nikki Tait, Chicago*

■ EMERGING MARKET COMPANIES

Strong year for ADR listings

Companies in emerging markets had one of their best years on US exchanges in 1997, in spite of turmoil in Asian markets, with more than $11bn in new capital raised, according to a Citibank report to be published today. Emerging markets accounted for 65 per cent of the total amount raised in American Depositary Receipts, which Citibank estimates will total $17bn for the year. Although 1997 was a strong year for ADR listings in the US, the full-year figure represents a 13 per cent decline from last year's total of $19.6bn.

The number of new listings also fell, according to Citibank, from 272 in 1996 to an estimated 245 this year. "Had it not been for the last couple of months of turmoil in Asia, we would have come close to a new record," said James Donovan, global managing director for Citibank's depositary receipt business. *John Labate, New York*

■ ROLLING BEARINGS

Timken buys Romanian producer

Timken, the biggest US maker of industrial rolling bearings, is extending its interests in eastern Europe by paying $37m for a majority stake in Rulmenti Grei, a Romanian bearings producer. Timken, which has annual sales of more than $2.4bn, is attempting to extend its operations outside its main markets in the US and western Europe, and has started production operations in China and Poland. Rulmenti, set up in 1979, employs 1,000 people and makes bearings for industries including steel mills and oil and gas production.

Peter Marsh, London

■ PRINTING PRESSES

Goss Graphics scotches bid talk

Goss Graphic Systems, of the US, the world's biggest maker of newspaper presses which was formerly part of Rockwell International, the industrial company, yesterday scotched talk of a takeover bid by Heidelberger Druckmaschinen of Germany, a rival printing press company, by saying it was not for sale.

The Chicago-based company also announced a 60 per cent rise in operating income to $48.2m in its first year as an independent company. The rise in income, in the year to September 30, compared with $30.1m in the previous year and excluded a $46.7m charge involving the writing-off of inventory at the time Rockwell sold the company, to Stonington Partners, a private investment group. Sales for the year fell 9.5 per cent to $632.8m. *Peter Marsh*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Andersen dream turns into nightmare

Tension between consulting and auditing spoils what seemed a perfect match

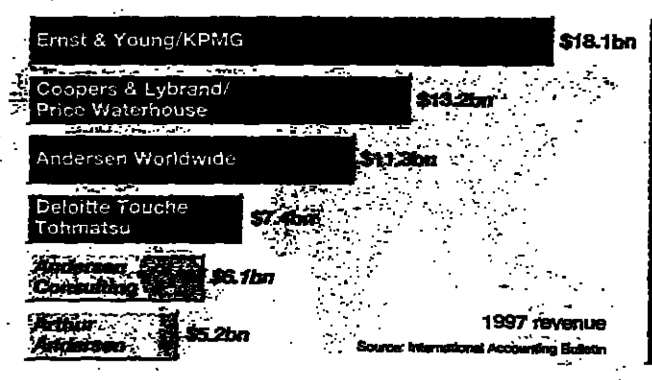
The marriage of Andersen Consulting and Arthur Andersen is on the rocks. All attempts to keep the problems inside the family broke down yesterday with the news they are seeking outside help. They may still end up under the same roof – but things will never be the same again.

It is going to be a long and messy business – but the real puzzle is trying to work out what went wrong.

It seemed to be the perfect match. Under the family name of Andersen Worldwide, the two separate businesses were powering ahead. Group income rose from $9.5bn to $11.3bn in the year to August 31. AC increased revenue 25 per cent to $6.1bn, while AA saw 13 per cent growth to $5.2bn.

Numbers game

Jim Wadia, Arthur Andersen



George Shaheen, Andersen Consulting

The group is at the top of the traditional "Big Six" league – and will remain a significant force even if proposed mergers in the sector pass regulatory scrutiny.

The remainder of the Big Six are in turmoil as four of them – Coopers & Lybrand and Price Waterhouse, and Ernst & Young and KPMG – seek to finalise two global mergers designed to provide the investment needed to win a share of the expanding market in servicing global companies.

In many ways, the merger partners are seeking to replicate the growth enjoyed within Andersen Worldwide – but particularly within AC, whose 20 per cent-plus growth is the benchmark. AC has consistently forged ahead in opening up the high-value-added end of the consulting market.

The merging Big Six partners want a slice of this market, which involves service provision for big clients – providing IT systems, outsourcing deals, and assisting business transformation. They, too, want to be called on at the strategic level to help businesses globalise and deal with cross-border problems such as recruitment and remuneration.

Ironically, it is the explosive growth in this sector that has destabilised Andersen Worldwide. AA was founded in 1913 in Chicago, but in 1989 it separated the consulting business from the more traditional audit, tax and accounting business. In many ways, they have become independent businesses under an umbrella organisation.

Two problems have bedevilled Andersen ever since. First, the upstart consulting business has outstripped its parent. It is more than a coincidence that the row between them has broken out just when AA has found itself the junior partner in terms of both absolute fee income and revenue growth.

Second, there is a disparity in partner earnings. Consulting is more profitable than traditional accounting services; add to that the fact that the consulting side has just 1,000 partners, compared with 1,700 on the accounting side, and a clear wealth divide separates the two sister firms.

These tensions could have been contained, but then turf wars broke out. Jim Wadia, new head of AA, has a vision for his firm which looks very different from traditional accounting. What most people think of as consulting is included – and much more.

AA is understood to generate more than $500m in consultancy services. But it is developing all its services – including audit – to provide more strategic advice to clients, especially on tax. As a result, partners from the two sides have found themselves stepping on toes for some time. In some cities they have moved into separate buildings.

The documents issued yesterday by AC give a blow-by-blow account of how it believes that AA has broken the so-called Florida accords of 1990, which set out complementary – but separate – development rules for the two businesses.

Meanwhile, AC is trying to blaze a trail in new markets – collecting fewer but bigger clients, including BP, Shell, Microsoft and Du Pont, and doing much more for them. Executives at AC complain that the last thing they need is to be linked to the AA brand, with its associations of low-value auditing.

These tensions could not have surfaced at a worse time. While the rest of the Big Six flirt with mergers, Andersen Worldwide has been arguing with itself. Mr Wadia is confident the business can thrive without a merger. But a split from Andersen Consulting would leave his firm the smallest of the Big Six – not a comfortable brand image, and a possible target for a merger itself.

Meanwhile, AC is trying to create the first truly global firm to meet the challenge presented by giants such as EDS and IBM – as well as by consultancy businesses of the new, merged Big Four firms. The last thing AC needs is distraction.

All these problems are compounded by the governance structure of Andersen Worldwide, which is now in gridlock. The majority on the board is held by AA. Several attempts to elect a new chief executive have failed, as has a project (known as Andersen 21) to map a way forward. Income distribution mechanisms – which currently channel a reported $100m to AA from AC – appear to add insult to injury.

These tensions became public last year, but a breathing space was created by the appointment of an interim head of Andersen Worldwide. The two sides were told to go and cool down.

But it is now clear that AC is fed up being the junior partner. It claims AA refuses to reform; hence the decision to seek arbitration.

It may be a fatal encounter for Andersen Worldwide, but it may also spell trouble for the remainder of the Big Six. The tensions within Andersen are likely to be present within the global firms they are all trying to build.

If consulting continues to outperform audit and accounting, it will increase the likelihood that the merged firms will not try an Andersen-style split between consulting and audit. It also means that any moves by regulators to split audit from other services could be enough to derail the mergers.

Jim Kelly

Sanwa plans to buy Yamaichi Investment Trust

By Gillian Tett in Tokyo

Sanwa, one of Japan's large commercial banks, is drawing up plans to buy the investment trust arm of Yamaichi, the country's fourth largest broker which failed last month.

Sanwa aims to use the purchase of Yamaichi Investment Trust to build up an asset management operation ahead of Japan's planned "Big Bang" financial deregulation.

The move highlights the growing aspirations of big Japanese banks to turn themselves into universal banking operations. It is also another sign of the changing nature of business ties in Japanese finance.

Sanwa has not had a tie with Yamaichi, which has been linked instead to Sanwa's rival, Fuji. However, Fuji has decided it does not want to retain links with the group and Yamaichi's affiliates are seeking other purchasers.

Sanwa hopes to complete the purchase with Merrill Lynch, the US investment bank. Merrill Lynch yesterday acknowledged it was considering the plans but had not yet reached a firm agreement.

If Merrill Lynch declines, Sanwa is considering purchasing Yamaichi's investment trust operations by itself in order to expand its asset management skills. The shareholder equity of the investment trust business is Y15bn ($115m).

Sanwa is one of the least troubled of the commercial banks: in recent weeks it has attracted new deposits from retail clients and its share price has risen from about Y1,000 five weeks ago to Y1,480 yesterday.

The bank is keen to build up its asset management operations because the market in mutual funds and other investment products is expected to surge after Big Bang. Although groups such as Sanwa were formerly barred from participating in this line of business, they will be permitted to enter it next year.

Sanwa wants to join with Merrill Lynch because it recognises that it does not have sufficient international asset management skills. However, if Merrill Lynch does take part in the deal, it is likely to take only a small stake. Like many western groups in Tokyo, the US group has been wary of taking on a commitment to any potentially troubled Japanese institution.

Yamaichi Investment Trust is 18 per cent owned by other members of the Yamaichi family. It is considered one of the healthier parts of the Yamaichi group.

Model Taiwan company becomes high flyer

Taiwanese companies are renowned for their agility and ingenuity, but a toymaker moving into aerospace stretches the imagination. However, Thunder Tiger is no ordinary toy company, and its founder, Aling Lai, is no ordinary businessman.

In an illustration of how Taiwan is re-engineering its economy, one of the world's leading manufacturers of radio-controlled model aircraft has landed government contracts to develop jet engines.

Taiwan is keen to foster an aerospace industry and is encouraging manufacturers to begin by making components, eventually moving to vertical integration of the industry – much as Taiwan's high-technology sector has done since the early 1980s.

In April, Thunder Tiger signed a $2m contract with the government to develop a prototype 60lb thrust engine for military and industrial purposes. The military will use the engine for remote-controlled decoy aircraft, while in the industrial field it will be used for turbine generators. The engine will be based on a 15lb thrust turbojet that Thunder Tiger now makes for its model aircraft.

Thunder Tiger is also co-operating with the government's Chung Shan Institute to build an unmanned aerial vehicle for military surveillance purposes.

"From toys to aerospace – sounds crazy, doesn't it?" chuckles Mr Lai, who founded the company in 1974 as a retail hobby store and built it up into a manufacturing and distribution operation, with factories in Taiwan and China and a distribution arm in the US. "But we see a lot of opportunities in the aerospace field, and our R&D team is capable of developing advanced technology products."

When Mr Lai opened his first shop, there was no hobby industry in Taiwan, so he imported all his materials. But the import duty was a hefty 150 per cent, so he began manufacturing small parts such as wheels. "Then I realised the engine was the most important part, so I searched for a machine shop and started to manufacture two- and four-stroke engines." When manufacturing costs in Taiwan began to soar, he opened an assembly site near Shanghai.

The transition from models to aerospace may sound crazy, but it is not. To produce engines for model aircraft requires advanced technology, precision engineering and rigorous quality control – all of which are needed for aerospace components.

Aling Lai: piloting his group's move into aerospace

It also requires large capital investments in machinery and equipment. Mr Lai estimates he has spent $4m in the past two years on new machines, and plans to spend another $2-$3m upgrading equipment over the next few years.

Research and development are also crucial. For the past ten years, R&D costs have averaged between 5 per cent and 7 per cent of revenues, Mr Lai says. In 1997 they will be between 12 per cent and 15 per cent. Of the 149 staff in Taiwan, 30 are employed in R&D.

In a vote of confidence for the model-maker, Citicorp Capital Asia, the venture capital arm of the US-based bank, last May bought a 15 per cent stake.

Thunder Tiger has also been aggressively expanding its modelmaking business. Last June, the company bought Ace, a US maker and distributor of radio-controlled models based in Higginsville, Missouri. With that purchase, Mr Lai expects Thunder Tiger will capture a 55 per cent market share in the US next year. The market share in Europe is about 40 per cent.

"Due to cutting out the middleman we will make a much higher profit," said Mr Lai. The company will also distribute wholesale 60 other brands from around the world and seeks to become the third biggest hobby distributor in the US next year. It aims for sales of $20m this year and $25m in 1998.

Laura Tyson

CNAC disappoints on debut

Shares in China National Aviation Company, the latest "red chip", or mainland-backed company, to join the Hong Kong stock market, failed to take off yesterday, writes Louise Lucas in Hong Kong.

The shares closed unchanged at HK$1.63, despite a 3.35 per cent rise in the market overall.

CNAC's unimpressive debut comes as the red chip sector has seen signs of renewed activity after the recent sell-off.

Last week, Tianjin Development Holdings rose 24 per cent from its issue price, while two other big red chips surged yesterday on news they are to be included in the benchmark Hang Seng Index.

Analysts attributed CNAC's performance to its pricing. Compared with other aviation stocks in Hong Kong it is expensive: it was launched on a price/earnings multiple of about 12 times against a multiple of about seven for China Southern Airlines and China Eastern Airlines.

Cathay Pacific, Hong Kong's own airline which is suffering from Asia's currency turmoil and a dearth of tourists, is trading on a p/e of about five times.

ASIA-PACIFIC NEWS DIGEST

Great Eagle scraps Al-Waleed deal

Great Eagle has scrapped its planned alliance with a Saudi investor which was to have formed the platform for the Hong Kong property group's expansion into the US.

The deal with Prince Al-Waleed Bin Talal Bin Abdulaziz Al-Saud would have seen Great Eagle acquire stakes in six Fairmont Hotels, but it fell apart over "unresolved business issues" unrelated to financing or pricing, the group said yesterday. The split was amicable and by mutual consent, it added.

The failed deal leaves Great Eagle with HK$1.09bn (US$141m) cash, which it raised through a share placement last month in anticipation of the hotels acquisition. Lo Ka-shui, deputy chairman and managing director, said the cash would be reserved for future investments: "The ample liquidity we have on hand will place us in a position of strength to further our corporate objectives." There were no immediate acquisition targets, and the group said it had not yet decided whether to keep the money in local currency or US dollars.

The alliance with Prince Al-Waleed was struck in September. It entailed Great Eagle's buying a 50 per cent stake in three Fairmont US hotels and a 50 per cent stake in Fairmont's management company from Swig Investment for US$100m, with Prince Al-Waleed holding the balance. Great Eagle had further agreed to pay US$40m for half of the prince's stakes in three other US hotels.

Great Eagle's share price rose 0.3 per cent to HK$11 on the news, underperforming the main market. However, some analysts welcomed the collapse of the deal, saying it lessened the need for another cash call and that interest savings would enhance earnings.

Louise Lucas, Hong Kong

■ TOILETRIES

Kao to wind up US division

Kao, the Japanese toiletries and cleaning products manufacturer, is to liquidate its main US subsidiary as part of a restructuring of its overseas operations. The closure of Kao Corp, based in Delaware, will lead to a Y21.4bn ($163m) exceptional loss for the parent company in the current financial year, but Kao said it was leaving its profit forecasts unchanged. Kao Corp has three main divisions, involved in home, industrial and information technology products. Kao has already announced moves to scale down areas of its US business, particularly the production of floppy disks by its IT subsidiary.

Bethan Hutton, Tokyo

■ THAI SECURITIES

Singapore group buys into Nava

Vicker Ballas, the Singapore securities company, said it had acquired a 49 per cent stake in Nava Securities, one of Thailand's largest securities brokers. Vickers will pay about Bt1bn ($38.15m) for the stake in Nava, which until now has been a wholly owned subsidiary of Nava Finance & Securities.

The purchase of Nava is part of an expected wave of takeovers of Thai securities companies by foreign investors. At least 20 securities licences held by the 56 finance companies which were closed last week by Thai authorities are likely to be auctioned next year. Securities operations of finance companies that remain open, such as Nava, are also likely to be partially sold to foreign investors as the parent finance companies seek to liquidate their profit-making securities divisions to shore up the finance sides of their business.

For example, Phatra Thanakit, the country's largest finance company, said yesterday that it lost Bt6.02bn in the 11 months to November 1997, compared with a net profit of B1.46bn for all of last year. The loss was caused chiefly by a Bt6.43bn increase in loan-loss provisions. The company funded much of the provisions by selling a 49 per cent stake to Thai Farmers Bank.

Ted Bardacke, Bangkok

Slide in Sappi stake takes toll on KNP

By Gordon Cramb in Amsterdam

KNP BT, the Dutch packaging and distribution group, is to take a Fl 300m ($149m) extraordinary charge this year because of a slide in the value of its 20 per cent stake in Sappi, the South African buyer of its paper-making division.

The announcement was accompanied by the departure of Rob Bonnier as chief financial officer. Mr Bonnier's resignation comes five days after Frank de Wit quit as chairman, in an apparent boardroom coup.

It emerged yesterday that without consulting the supervisory board, the two had initiated talks on the further dismantling of the group. They approached Hagemeyer, a Dutch trading company, with a merger proposal for the distribution division, which includes paper merchanting and office products.

Packaging activities were also to have been sold, meaning there would be nothing left of the group created through a three-way tie-up in 1993. Although the Hagemeyer talks were inconclusive, KNP's non-executive directors are understood to have been outraged that these had taken place behind their backs.

"Timely consultation is the general rule," said Pieter Barbas, company secretary. "A supervisory board never likes to be confronted with a transaction only once it is ready to execute."

The company said there were "personal reasons" behind the departure of the finance chief. Last Friday it said the chairman was departing because the nature of its business had changed following the Fl 1.5bn Sappi deal, agreed in September.

Mr de Wit comes from the paper-making side, known as KNP Leykam, which slid into loss last year. He agreed to take half the proceeds in Sappi shares, valued then at R43.85 apiece.

But amid worries in Johannesburg about borrowing levels at Sappi – which assumed Leykam's Fl 1.4bn debt – its share price slid. KNP BT said it would book the share value in its year-end accounts at the R27.50 average level of the last four weeks.

The resulting Fl 300m book loss is only modestly offset by a Fl 20m gain from the sale of its plastic packaging business to Tenneco, of the US. It will make a large dent in bottom-line profits, which stood at Fl 222m for the first nine months.

KNP shares, which had suffered from concerns over the Sappi holding, rose Fl 2.30 to Fl 45.50.

Amerada Hess and Saga asset writedowns

By Robert Corzine

Amerada Hess, the US oil company, and Saga Petroleum of Norway warned yesterday they would make big writedowns on the value of their interests in the Durward and Dauntless oil fields in the UK sector of the North Sea.

Saga, which has a 23.5 per cent stake in the fields, said a "realistic" writedown would be in the $50m–$60m range, while Amerada Hess, with a 28 per cent share, said it would take a charge of up to $60m in its fourth-quarter accounts.

The other partners in the fields are DSM Energy, British Borneo Petroleum Syndicate and Seafield Resources.

Durward and Dauntless, which are operated by Amerada Hess, began production last August. Amerada Hess said early production information showed that reserves were probably "toward the bottom end of the range originally anticipated".

The partners said additional work would be done to increase access to what oil is in place. They are also looking at additional prospects in the area that might be developed using the existing production vessel.

Meanwhile, Saga said it expected a negative cash flow next year because of a sharp rise in exploration and development spending and a higher tax bill.

Alitalia picks KLM as European partner

By James Blitz in Rome

Alitalia, the Italian national carrier, was last night poised to end the long battle over its choice of a strategic European partner by announcing it had opted for KLM Royal Dutch airlines.

In spite of pressure in recent months from the French government for Alitalia to team up with Air France, the Italian company's board was expected to announce plans for a strategic alliance with the Dutch carrier – further consolidating the European airline industry.

Alitalia has made little secret of its preference for KLM, arguing that the alliance would be a better technical fit than either Air France or Swiss Air, its other suitor, could provide.

The Italian carrier has a large domestic market but a relatively underdeveloped network of long-distance routes. KLM, meanwhile, has a strong tradition of long-distance flying but has been looking for a substantial domestic market in which to gain a foothold.

The partnership does not involve an exchange of shares and will focus on streamlining the routes and services provided by both airlines. Officials close to the deal said the airlines would aim to create a co-ordinated trans-continental service centred on three European hubs – Malpensa airport in Milan, Fiumicino in Rome and Schiphol in Amsterdam.

By forming an alliance in this way, both airlines hope to increase market share in the lucrative northern Italian region, where many passengers now travel by land to neighbouring countries before setting out on intercontinental journeys.

Further co-ordination between the airlines – involving frequent flier programmes and cargo services – could also be undertaken next year and a full merger was not ruled out.

The alliance, in which KLM was advised by J. P. Morgan and ABN Amro Hoare Govett, is the latest sign of European airline consolidation. It follows Swissair's pact with Sabena and Austrian Airlines, and Lufthansa's association with SAS. But it will heighten concern in Paris that Air France is becoming isolated.

Patrice Durand, vice-president, finance at Air France, said the Alitalia decision was "not good news".

There had been speculation that Romano Prodi's government might opt for a "political" deal with Air France to underpin the Franco-Italian relationship in the final stages of Italy's bid to enter a single currency.

But Domenico Cempella, Alitalia chief executive, argued such a move would undermine plans to privatise the Italian airline next year.

Domenico Cempella: mindful of Alitalia's privatisation

Kleinwort chief urged to step down

By Andrew Fisher in Frankfurt and George Graham in London

A member of Dresdner Bank's supervisory board yesterday called on Hansgeorg Hofmann, head of the German group's investment banking operation, to resign over his admission that he had evaded tax.

Klaus Carlin, a banking union member who represents employees on the non-executive board, said Mr Hofmann should no longer head Dresdner Kleinwort Benson in London. This would be "extremely questionable morally".

Mr Hofmann's tax problems have also raised questions about his position in London.

As chairman of the DKB investment banking operation, he would have to satisfy the Bank of England that he was a "fit and proper person" to hold this position. The Bank's rules stipulate: "It is essential that a person with responsibility for the conduct of a deposit-taking business is of high integrity."

Mr Carlin's call for Mr Hofmann's resignation comes after Jürgen Sarrazin decided this month to step down early from the chairmanship of Dresdner Bank, after a series of resignations over directors' personal tax affairs. He was already due to leave in May to make way for Bernhard Walter.

Wolfgang Röller has resigned as head of the supervisory board over allegations of tax evasion – which he denies – and Hans-Günther Adenauer has left the management board over his personal tax affairs.

Mr Hofmann also left the board last month. Dresdner originally said this was to enable him to concentrate on building up the investment bank from London. However, the bank admitted on Sunday that the real reason was his tax confession.

Dresdner has said he will remain head of DKB, but bankers said his standing among clients would be weakened.

Mr Carlin's comments were released in advance of their publication in Wirtschaftswoche, a weekly business magazine. He also said: "Sometimes, I have the feeling I am in a madhouse. We urgently need to return to calm, otherwise irreparable damage will be done."

Dresdner also announced plans yesterday to appoint a new head of communications with direct access to the board.

Ericsson-Nokia mobile standard nears approval

By Greg McIvor in Stockholm

Shares in Ericsson and Nokia rose yesterday as the Swedish and Finnish telecommunications groups appeared close to winning an international battle to determine the technology for the next generation of mobile telephones in Europe.

In Helsinki, Nokia's most-traded K shares ended the day FM8 higher at FM389, while in Stockholm, Ericsson's B shares closed up SKr11.50 at SKr299.50.

Traders attributed the rises in part to the informal endorsement on Tuesday of a joint Ericsson-Nokia proposal as the basis for an eventual standard to succeed GSM, the de facto world digital standard for mobile networks.

ETSI, the European telecoms standardisation body, gave preliminary backing to a system called Wideband Code Division Multiple Access (W-CDMA) as the preferred European standard technology for third-generation mobile telephony.

Analysts said this was a setback for Motorola of the US, Northern Telecom of Canada, Siemens of Germany, France's Alcatel, and Italtel of Italy. All have advocated a technology called TDMA/CDMA.

Both camps have lobbied hard for their preferred solutions. ETSI will hold a final vote on January 28, but analysts said the result appeared to be a formality.

Douglas Smith, technology analyst at Salomon Smith Barney in London, said the Nordic duo would have a valuable head start in the development of next-generation mobile telephony.

The companies are the world's second and third largest suppliers of mobile handsets, behind Motorola, and leading manufacturers of mobile network infrastructure.

"The companies which control the standards usually have a big economic advantage over companies that just follow the standard," Mr Smith said.

Third generation cellular networks, expected to enter service in 2002, represent a step forward from existing digital voice-based systems. They will offer expanded capabilities such as multimedia services.

EUROPEAN NEWS DIGEST

AssiDomän in Russia move

AssiDomän, the Swedish forestry company, said yesterday it was withdrawing financial support from its jointly owned pulp and paper mill in the Russian province of Karelia after a dispute over working capital. The company, which in July acquired a 57 per cent stake in the Segezhabumprom mill for SKr350m ($45m), warned it could no longer finance the loss-making project on its own.

It has asked Boris Nemtsov, Russia first deputy prime minister, to intervene to persuade the mill's Russian shareholders to finance some of its working capital requirements. Some industry analysts suggested that AssiDomän's action signalled growing concern among Swedish investors at the financial risks involved in Russian manufacturing projects. The company's involvement in the Segezhabumprom mill has been dogged by bureaucratic difficulties and tax disputes, culminating in a move by the Karelian state prosecutor to declare AssiDomän's share ownership illegal.

The mill has also been hit by negative cash flow, forcing it to take out loans to underpin working capital. AssiDomän said it was no longer willing to provide security for such loans. Lennart Ahlgren, chief executive, described the situation as unacceptable, he emphasised that the group intended to press ahead with investments elsewhere in the former Soviet Union, dominated by a new corrugated board plant outside St Petersburg.

Shares in the Swedish group fell SKr5 to SKr194.50.

Tim Burt, Stockholm

■ BAYERISCHE VEREINSBANK

Dutch acquisition planned

Bayerische Vereinsbank, which is involved in a merger to create Germany's second biggest bank, plans to expand in the Dutch property financing market with the Fl 700m ($348m) purchase of FGH Bank. With total assets of some Fl 7bn, FGH is one of the three largest property banks in the Netherlands. The price is slightly above book value.

Vereinsbank, which is merging with Bayerische Hypotheken- und Wechsel-Bank, is buying the bank from Aegon, the Dutch insurance group. Aegon said the transaction, expected to take effect in the first half of 1998, would have a slightly negative impact on earnings growth per share. FGH made a net profit last year of Fl 85m.

The sale is being made because FGH, a specialised commercial property bank, is not part of Aegon's core business. The acquisition fits in with the strategy of the Bavarian banks – whose combined name after the merger will be Bayerische Hypo- und Vereinsbank – to expand across Europe in such areas as mortgage and property banking, asset management, and corporate finance for medium-sized companies. The merged bank will be Europe's market leader in property financing.

Andrew Fisher, Frankfurt

■ HUNGARY

Oil privatisation continues

APV, the Hungarian privatisation agency, is preparing to sell 11.2 per cent of the shares in Mol, the state oil company, for a nominal price of Ft10bn ($30m), Hungarian radio reported yesterday. The sale is expected to take place in late February. Mol officials said the sale would be the third and final Mol share issue and will reduce the state's share in Mol, Hungary's second largest company, to 26 per cent. One per cent of the equity will be reserved for Hungarian individuals, with an extra 2 per cent available in case of oversubscription.

The news pushed Mol shares up Ft65 to Ft4,860 on the Budapest Stock Exchange. *Anatol Lieven, Budapest*

■ Shares in Raba, the Hungarian truck maker, closed yesterday at Ft2,985 on the first day of trading on the Budapest Stock Exchange, almost double the offer price of Ft1,475. Yesterday's price values the company at about $220m.

Raba, based in western Hungary, makes axle assemblies, smaller trucks and engines. After a complicated privatisation, which began in September, the company is left with five large shareholders, each with a 10 per cent stake. An international and domestic private placement to institutional investors for an 18 per cent stake in November was 6.8 times oversubscribed. *Kester Eddy, Budapest*

■ ENGINEERING

Kvaerner to buy Romanian groups

Kvaerner, the Norwegian shipbuilding and construction group, yesterday agreed to take controlling stakes in two Romanian engineering groups for $60m, including investment commitments. About half the money will come from the EBRD, which may take an equity stake in return.

Anatol Lieven

■ POLAND

Further investment by Rabobank

Rabobank, the Dutch agricultural bank, is to invest a further 38m zlotys ($10.6m) in Rabo-BRP, a Polish agriculture bank in which it took a 51 per cent stake 18 months ago. The decision to increase Rabo-BRP's capital to 75m zlotys came after the Dutch bank bought out the remaining investors to take full control of its Polish affiliate. Rabobank is the first foreign bank in Poland catering specifically for the farming sector.

Christopher Bobinski, Warsaw

■ FORENINGSPARBANKEN

Staff cuts to hit 1997 results

ForeningsSparbanken, the Swedish bank, said yesterday it would take a charge of SKr900m ($115.5m) in its 1997 results for early retirement costs, as part of a plan to reduce staff numbers by at least 2,000 over the next two years. The bank – the result of a merger between Swedbank and Foreningsbanken – said it had sold branches in Sweden to a value of SKr3.6bn. *Reuters, Stockholm*

Telekom cuts long-distance rates

By Graham Bowley in Bonn

Deutsche Telekom yesterday unveiled aggressive price cuts for long-distance calls, in a challenge to its rivals ahead of the liberalisation of the German telecommunications market next month.

The new tariff structure offers particularly steep price reductions in areas where it faces strongest competition from new rivals. However, it offers few savings on local calls, where Deutsche Telekom remains dominant.

The company, Europe's largest telecoms group, also said it would cut prices next year on calls longer than 10 minutes. It would also offer cheaper weekend calls and reduce connection charges with its mobile phone networks.

Ron Sommer, chief executive, said the changes – which come into effect from March – would give customers savings of DM2bn ($1.1bn). "In the future competitive market, we want to bind customers more strongly to Deutsche Telekom," he said.

The reductions meant that, on average, call prices would be about 4.5 per cent lower next year, Mr Sommer said.

The cuts come as Deutsche Telekom, which was partially privatised just over a year ago, faces financially strong rivals which threaten its hold over its home market.

O.tel.o, the telecommunications venture between Veba and RWE, the industrial conglomerates, has threatened to undercut it by up to 20 per cent on long-distance calls.

Mannesmann Arcor – which is backed by the Mannesmann industrial group and Deutsche Bahn, the federal railway operator – has proposed similar discounts.

Deutsche Telekom has been angered by an unexpectedly tough decision by regulators on the price it can charge rivals for network connections. It is challenging the ruling in court.

The company maintains that the decision favours new entrants and disregards costs borne by Telekom in setting up its network.

Deutsche Telekom said prices next year would be reduced on calls to 78 countries, with the price of calls to North America – expected to be one of the most hotly-contested routes – cut by up to 45 per cent.

Charges on calls longer than 10 minutes would offer savings of up to 30 per cent, while connections between Telekom's fixed network and its mobile phone services would be reduced by as much as a quarter.

"This is a clever tariff structure," said Stefan Mehler, analyst at WestLB in Düsseldorf.

Textiles group also warns profits will be down some £40m because of sterling and closure costs

Coats Viyella sets out demerger plans

By Andrew Davis

Coats Viyella yesterday set out plans to demerge, alongside a warning of an unexpectedly sharp fall in profits this year and up to £75m ($123.8m) of restructuring costs.

Its statement increased worries over a possible dividend cut. Kirk Stephenson, finance director, said maintaining the dividend would leave it "substantially uncovered". Operating profits were expected to be £40m down on 1996's £174.3m. About £20m of the decline was because of the strength of sterling.

The company is providing up to £15m against the sale or closure of the Counterpart contract clothing business, where 2,000 jobs are at risk.

It plans to split into Coats and Viyella by mid-1998. Coats will comprise Dynacast precision engineering and the thread and Indian operations.

Viyella will take in clothing and home textiles, including the Jaeger and Viyella retail chains and contract clothing.

Michael Ost, chief executive, said the demerger was only "a first step"; the company hoped to be able to split threads from precision engineering next year, once the capital gains tax position had been clarified with US authorities.

The Viyella businesses would remain together for the moment, but the aim would be to improve their performance over the next couple of years, widening options for possible disposals.

Sir David Alliance, chairman, will chair Viyella, which is seeking a chief executive. Mr Ost is to be chief executive of Coats, for which a chairman is being sought.

Mr Ost said he recognised demerger was not "a magic wand" to lift the company's trading performance. But it would enable discrete management teams to focus more effectively on each business, and would help investors value the businesses.

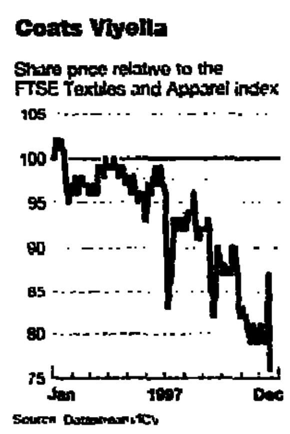
However, there was no indication of how the company's debt, which stood at £390m at the half year, would be divided.

Mr Stephenson said the company would look at the prospects for the two businesses after they were separated when deciding the level of dividend for 1997. It was 9.725p last year.

As well as the previously announced ongoing restructuring costs of about £30m, the company planned one-off charges totalling £45m. These were to cover problems at Berghaus's Russian clothing operations and the exit from the Counterpart contract clothing business, Calprina commission finishing and the Australasian crafts business.

LEX COMMENT

Coats Viyella



It is a pity that performance has deteriorated in so many parts of Coats Viyella that it now seems too difficult for one plc board to manage. If things had not got so bad, a neater order of events might have been to spin off precision engineering and reap a recovery from the rest. Now the problem seems so big that it must be halved, and eventually quartered. Precision engineering will indeed be spun off by the new Coats group, and the Viyella half will one day consider splitting retailing brands from manufacturing.

Michael Ost, chief executive, must ensure that all this wheeling and dealing does not distract him from the urgent task of improving underlying performance. However, a demerger is usually a good catalyst for just that.

Mr Ost will certainly be more at home running the two industrial businesses, and there is an opportunity to revitalise the Viyella management. Finding a strong chief executive for that business is obviously crucial.

Assuming that the pair will be better managed on this semi-simplified basis, is the group massively undervalued at its new low of 95p? Its £1bn enterprise value is, after all, well below half annual sales.

A conservative valuation of 120p a share can easily be raised to 150p by assuming progress on restoring clothing margins, applying market multiples to engineering and retail, and adding a net asset valuation for threads. But with so much to do amid unhelpful market conditions, investors would have to take a lot on trust.

Caspian raises $80m to expand

By Jonathan Ford

Caspian Securities, the emerging markets investment bank, has raised $80m to continue its expansion despite the recent turmoil in Asian markets.

The bank, which has expanded heavily in Asia this year, has now raised $240m in three tranches since its foundation two years ago. Richard Greer, managing director, said it had no plans to raise further capital in the near future. The money came from both existing and new investors, with the Commonwealth Bank of Australia understood to have maintained its 17 per cent holding.

Mr Greer said that the group's shareholders had been supportive. "The money raising was in the original business plan and most investors seemed to understand our argument that it is better to expand when times are tough than in a roaring bull market."

Caspian has yet to make a profit since it was founded by Christopher Heath, the former chairman of Baring Securities, but Mr Greer said he expected the bank to move into profit next year. He said that Caspian would use the money to expand its presence in eastern Europe. The bank also plans to add more staff in Asia as part of a push into mergers and acquisitions.

"This is the area to expand into because there is going to be a lot of buying of cheap corporate assets in the region," said Mr Greer.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baggeridge Brick	Yr to Sept 30	35.8	(33.1)	4.06	(2.52)	7.4	(4.07)	2.75	Feb 18	2.375	3.5	3.125
Break for the Border	6 mths to Sept 28	10.7	(11)	0.343♠	(0.521)	0.45†	(1.43)	0.7	Jan 23	0.6	-	1.8
British Thornton	6 mths to Oct 31	2.94	(3.14)	0.05L	(0.184L)	0.1	(1.1L)	nil	-	nil	-	nil
Carpetright	6 mths to Oct 25	128.9	(106.5)	16.2	(14)	14.3	(12.1)	9.5	Feb 20	7.5	-	19
Chemring	Yr to Sept 30	64.7	(80.4)	24L♠	(8.11♠)	92.05L	(22.6)	1	Mar 13	7.69	3	11.45
Druck	6 mths to Sept 30	26.5	(25.8)	4.18	(4.38)	4.03	(4.18)	0.58	Feb 16	0.54	-	1.73
Eurotherm	Yr to Oct 31	202.3	(206.53)	30.3	(37.7)	22.7	(27.6)	5.8	Feb 27	5	10	9
Kunick	Yr to Sept 30	131.2	(119.6)	10.4♠	(9.11)	1.94‡	(1.52)	0.45☆	Mar 3	0.4	0.85#	0.7
Lonsdale	6 mths to Sept 30	0.034	(0.803)	0.165♠L	(0.403L)	0.2L†	(1.5L)	-	-	-	-	-
Pembertons Φ	6 mths to Sept 30	1.18	(0.877)	0.105L	(0.094L)	0.25L†	(0.38L)	-	-	-	-	-
Raphael Zorn Φ	Yr to Sept 30	7.15	(5.86)	1.45	(0.746♠)	8.5†	(4.3)	2.5	Jan 28	2	2.5	2
Richards	Yr to Sept 30	62	(82.9)	1.57L♠	(2.37L)	7.22L	(10.63L)	0.93	Mar 2	0.93	2	2
Sep Industrial	Yr to Sept 30	57.8	(56.2)	2.74♠	(5.95♠)	2.06	(4.33)	0.8	Apr 2	1.1	1.25	1.75
Tunstall	Yr to Sept 30	81	(78.1)	4.14	(8.19)	7.1	(17.7)	3.32	Feb 20	3.32	5.17	5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Hill Samuel UK	Yr to Oct 31	114.3	(103)	0.178	(0.297)	0.63	(1.05)	0.26	Feb 25	0.95	0.26	0.95
L&G Recovery	Yr to Oct 31	153.2	(137.5)	1	(1.08)	2.72	(2.94)	1.75	Feb 27	1.6	2.55	2.35
Murray Smaller	6 mths to Nov 30	453.2	(498)	2.52	(2.08)	4.5	(3.7)	2	Jan 6	1.8	-	5.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡ ‡‡‡On reduced capital. ☆Second interim payable as foreign income dividend. #Includes proposed final of 0.05p. ΦAim stock.

NEWS DIGEST

Oster departs from Cookson

Richard Oster, who stepped up to become chairman of Cookson in September, is is leaving suddenly with £2.9m ($4.78m) in compensation, £1.6m worth of shares and options worth £306,000.

The pay-off, which followed a clash with other directors over strategy, is one of the largest awarded in Britain. It includes a payment the 62-year-old Mr Oster had already been promised for the loss of earnings involved in stepping up to a non-executive post. Mr Oster, an American, was managing director and chief executive of the diversified industrial products group for six years. He received £1.2m in 1996 and £1.7m in 1997.

The departure comes just three months after Don Carcieri, joint managing director, left with compensation of about £2m after being passed over for the chief executive's job.

Robert Malpas, Mr Oster's predecessor as chairman, has agreed to return to the £250,000 a year job until another chairman can be found. He said that plans to ensure a smooth succession had "turned pear–shaped." He added that Mr Oster's departure came after "a growing realisation between Richard and the board that the new management was having to take strategic decisions which Richard would accept intellectually, but would find quite hard to stomach." These included cutting back some of its US head offices, he said, adding that further business disposals were likely. *Andrew Edgecliffe-Johnson*

Pearson cautious over sterling

Shares in Pearson, the media company that owns the Financial Times, fell 5p to 824p yesterday after it issued a cautious end-of-year trading statement that emphasised the effect on revenues of the strength of sterling.

Analysts said the statement contained no surprises except for a faster-than-expected recovery at Mindscape, the US software subsidiary that has been restructured after losing £46.1m in 1996 and £15.1m in the first half of 1997. They expect Mindscape to make a profit of £10m in the second half of the year to December 31, allowing it to break even for the year before a £5m restructuring charge.

The group took another step in the gradual reshaping of its management under Marjorie Scardino, chief executive, with the announcement that David Veit, president of Pearson in the US, would retire next May at the age of 60.

The statement emphasised the effects of sterling's strength and said growth in some of its principal markets was slowing. However, it continued to seek double-digit earnings growth, the target set earlier this year by Mrs Scardino.

Penguin had integrated the Putnam Berkley group and cost savings there would help offset difficulties in the US book market. The impact of improper accounting at Penguin in the US would be within the £100m already announced. *John Gapper*

Wm Cook may bid for Triplex

William Cook has said it would consider bidding for its castings rival Triplex Lloyd, if Triplex's current bid talks collapse.

A Cook bid for Triplex would be a reversal of last year's bitter takeover battle which Triplex launched to win control of Cook. Triplex lost the bid when Cook trumped its offer with an £80m management buy-out.

Triplex confirmed last week it was in bid talks with an unnamed company, and was discussing an offer of 280p a share. The bidder is thought to be Doncasters, the Midlands engineer which is listed in the US.

The future of Triplex Lloyd is expected to be sealed within a week, although Doncasters refuses to comment on whether it is taking part in talks. *Richard Wolffe*

Eurotherm on acquisition trail

Eurotherm has between £70m and £100m ($165m) to spend on acquisitions in the US and south-east Asia, Claes Hultman, chief executive, said yesterday as the industrial controls maker reported a 20 per cent drop in full-year pre-tax profits.

Mr Hultman said the strength of sterling was to blame for the fall from £37.7m to £30.3m in the year to October 31. The strong pound affected the translation of profits and had a £6.9m impact on transactions.

The drives division, which has traditionally reported 15-20 per cent growth, managed to maintain operating profits at £12.2m (£12.4m), despite the strength of sterling, thanks to a turnround in the US market. *Andrew Edgecliffe-Johnson*

INTERNATIONAL CAPITAL MARKETS

Japan package sends prices down

GOVERNMENT BONDS

By Simon Davies in London and John Authers in New York

Government bond markets continued to drift lower in light trading, as investors responded to the announcement of Japan's surprisingly aggressive fiscal stimulus package.

Japan's decision to cut income taxes represented a policy U-turn, and sparked a significant rally in Japanese equities at the expense of bonds, with the JGB future weakening further in London trading.

Colin Hart, head of bond investment at Gartmore Investment Management, said: "All the good news for bond markets is in the price.

"Growth in the OECD countries, bar Japan, remains robust. And the actions of the Japanese government could lead to an economic recovery that is far sharper than people expect. The bond markets look vulnerable."

UK GILTS were particularly vulnerable, having discounted a continuation of the weak economic data that had emerged in recent weeks. The retail numbers for November therefore came as a shock, a fall of 0.4 per cent looking remarkably benign against some of the more dramatic forecasts.

The March future plunged on the release of the figures, falling $\frac{3}{32}$ at their low, but recovering to end the day $\frac{5}{16}$ lower at $121\frac{3}{16}$. Volumes remained thin, with 48,000 contracts traded compared with 51,000 on Tuesday.

Ian Stewart, UK economist at Merrill Lynch, said: "We think people have jumped on the slow-down bandwagon too quickly. Next year, domestic economic conditions could deteriorate, although Emu may still underpin the gilts market."

He pointed out that even if December's retail sales numbers were no greater than November's, retail sales growth in the fourth quarter would amount to 1.5 per cent, or an annualised 6 per cent for the UK. This argues against hopes that the next move in interest rates will definitely be downwards.

The response to the sales numbers left the market weaker against bunds, with the spread widening 5 basis points to 114.

GERMAN BUNDS edged downwards ahead of the Bundesbank meeting today, but closed well off their lows. The March contract settled at 104.39, down 14 basis points, but 18 above its low for the day.

The yield curve steepened slightly, with weakness concentrated in the medium and longer-dated issues. Traders said investors had held their fire ahead of the Bundesbank meeting, but analysts are clear in their predictions that there will be no move on rates.

Mark Cliffe, chief international economist at HSBC Markets, said: "We're still left in a fundamentally attractive position. There is no real sign of a pick-up in inflation in Europe [and] wage pressures are still negligible."

ITALIAN BTPs drifted down in line with bunds, with the spread against bunds ending the day 1 basis point narrower at 33. The March contract in London settled 0.16 lower at 115.37. The cash markets for FRENCH OATs and SPANISH BONOs moved exactly in line with Germany.

US TREASURY prices fell in early New York trading, with the yield on the benchmark 30-year long testing the 6 per cent barrier.

The Japanese government's stabilisation plan was mainly responsible, with the market's instant assessment being that it would significantly ease the pressure on the Japanese economy. The US bond market has benefited from a perceived "flight to quality" during the Asian crisis, and the news led to worries that there would now be less foreign demand for treasury bonds.

This pushed the yield through 6 per cent in early trading. Later assessments suggested that the package still left many economic issues to be resolved, and prices strengthened.

By midday, the 30-year bond had shed $\frac{1}{16}$ at $101\frac{3}{32}$, to yield 5.991 per cent. The yield curve steepened slightly, with the two-year bond shedding $\frac{1}{32}$ at $99\frac{3}{4}$, yielding 5.692 per cent.

Both profit-taking as fund managers adjust their portfolios in the last few trading days of the year and the weakness of the dollar also helped to push prices down. However, there was little economic data, and volume at mid-session appeared to be light.

Overall, it was not the size of the Japanese reflation package that spooked bond markets, but the fact that the government had actually come up with a positive surprise.

Mr Cliffe argued: "Y2,000bn of income tax cuts is not a huge fiscal stimulus, but there is the hint of more to come.

"One way or another, this economy should recover over the next six months, and that could spark the long-awaited sell-off in JGBs. But that could even encourage Japanese appetite for western bonds."

Khazanah cancels second tranche

By Sheila McNulty in Singapore

Khazanah Nasional, the investment arm of the Malaysian government, abruptly cancelled its second issue of benchmark bonds yesterday.

The decision is a blow to the country's ambition to build a vibrant domestic bond market.

The first Khazanah bond tranche, issued in September, was meant as an initial step towards creating a yield curve of varying maturities to serve as benchmarks for the fledgling corporate bond market.

Khazanah gave no explanation for the cancellation of what was scheduled to be an issue of not less than M$500m (US$129m).

It was also unclear whether the scrapping of this issue meant that the whole programme of bond issues had been shelved or would be resumed later.

Observers said the scrapping of the issue was a symptom of Malaysia's financial crisis. One of the government's main concerns is that liquidity is draining fast from the financial system. Syphoning away more cash to satisfy large bond issues could tap funds from the troubled stock market, analysts said.

The proceeds from the Khazanah bond issues would have been used to prop up the share prices of certain companies.

However, Anwar Ibrahim, the deputy prime minister and finance minister, announced as part of a sharp austerity package this month that no companies would be bailed out by the government.

New family of equity indices to be launched

By Andrew Fisher in Frankfurt

The three leading stock exchanges in continental Europe have linked with Dow Jones, the US business information group, to launch a new family of equity indices as a benchmark for investors ahead of the euro's planned introduction in 1999.

The indices will cover the western European market and the narrower euro area, taking account of changes in investment strategies expected to be caused by the onset of European monetary union.

The German, French and Swiss bourses will join Dow Jones to create two broad benchmark indices, as well as sector indices which will take account of investors' likely shift from a country to an industry-oriented approach. Two blue-chip indices will be included.

This represents the most comprehensive effort yet to provide European-wide indices for the post-Emu trading environment.

The index family will compete with the Eurotop indices launched by the Amsterdam stock and options exchange and FTSE International, owned by the Financial Times and the London Stock Exchange.

The benchmark indices to be produced by the three continental exchanges and Dow Jones will cover European Union countries plus Switzerland and the euro members, currently expected to be 10.

They are intended to cover 80 per cent of each country's equity market and each sector. The Europe-wide index is expected to include around 700 stocks and the euro index 350.

There will be 19 sector indices. The blue-chip indices will be calculated on a Europe-wide and euro-only basis, each containing 50 stocks. The indices, to be launched in February, have yet to be named.

Reto Francioni, a director of Deutsche Börse, said they were also designed to serve as the underlying basis for new derivatives products.

The index family would help prepare investors for the euro and act as a performance yardstick after its introduction, he said.

Dow Jones would calculate the indices, and the pan-European benchmark index would be identical with its Dow Jones Europe Stock Index.

Deutsche Börse, SBF-Bourse de Paris and Swiss Exchange first said in July they would launch a new family of European indices. Peter Reitz, a product development official at the German bourse, said Dow Jones had been chosen because of its experience in compiling indices in 31 countries.

The new indices would be compared with those on other continents, rather than with national indices such as the Dax in Germany or France's CAC-40. "I am very confident that this index family will be accepted as the benchmark for the European region," he added.

Jörg Franke, another Deutsche Börse director, said options and futures products would probably be developed on the basis of blue chip indices and on some of the branch indices.

IDB brings L150bn issue

INTERNATIONAL BONDS

By Samer Iskandar

Primary activity in the dollar sector yesterday was limited to a handful of deals targeted at specialised investors.

ACME METALS launched $200m of high-yield bonds with a spread of 523 basis points over 10-year Treasuries, with Morgan Stanley Dean Witter as lead manager.

IDB – the Inter-American Development Bank – launched the session's only deal in a European currency, raising L150bn through a fixed-floating issue.

The bonds pay a coupon of 12.15 per cent the first year, which falls to 7 per cent in the following two years. This reflects expectations that Italian interest rates will fall sharply after European economic and monetary union in January 1999, closing the gap with yields on French and German bonds.

In the remaining period until the bonds mature in 2010, the structure becomes a so-called "reverse floater", as the coupon becomes inversely related to money market rates.

● Bunge International, the Argentine food company, yesterday said it would buy back for cash up to $200m of international bonds issued by Ceval Alimentos, the Brazilian food processing company it acquired in November, writes Stephen Fidler.

Bunge said 89 per cent of holders of the notes had agreed to the proposed exchange.

The bonds will be bought back at a yield of 4.10 percentage points over that of Treasury notes maturing in 2001, when the bonds are callable.

Cindy Powell, head of emerging markets syndicate at Chase Manhattan in New York, which handled the tender offer with Citicorp, said the combination of high interest rates and mergers and acquisitions activity in some emerging markets could mean other similar offers may follow. "I think it's the kind of thing we'll see more of," she said.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Money Store MT. 97-D(a)★	725	-	-	-	-	-	Morgan Stanley DW
United Airlines(b)★‡	445.7	(b1)	(b1)	4.8 yrs	-	-	Morgan Stanley DW
United Airlines(b)★‡	106.6	(b2)	(b2)	4.7 yrs	-	-	Morgan Stanley DW
Acme Metals(s)	200	10¾#	99.251	Dec 2007	2.75	+523(6⅛%-07)	Morgan Stanley DW
■ ITALIAN LIRE							
Inter-American Dev Bank‡	150bn	(c)	100.908	Jan 2010	undisc!	-	BNL/JP Morgan/Sanwa Intl

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Mortgage Trust. 7-tranche deal. b) Priced later: b1) 3-mth Libor +20-22bp area; b2) 3-mth Libor +30-32bp area. c) 12.15% in yr 1, 7% in yrs 2-3, then 15½% - 2 x 12-mth Libor. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Dec 17	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.0526	5.57	+0.13	+0.27	+0.55	-0.65
	10/07	10.000	127.1827	6.21	+0.13	-0.12	+0.22	-1.22
Austria	09/99	7.000	104.2000	4.43	-0.01	-0.10	-0.08	+0.60
	07/07	5.625	101.5800	5.39	+0.02	-0.06	-0.26	-0.54
Belgium	01/00	4.000	99.1500	4.43	+0.01	+0.14	+0.09	+1.13
	03/07	6.250	105.7800	5.44	+0.02	-0.06	-0.28	-0.54
Canada*	09/99	4.750	99.2600	5.20	-0.04	+0.54	+1.04	+0.92
	06/07	7.250	110.9500	5.71	+0.01	-0.02	+0.26	-0.87
Denmark	12/99	8.000	102.6300	4.57	+0.01	-0.16	-0.20	+0.48
	11/07	7.000	109.6000	5.70	+0.01	-0.15	-0.40	-0.99
Finland	01/99	11.000	107.0620	4.07	-	-0.12	-0.22	+0.21
	04/08	7.250	111.7490	5.45	-	-0.08	-0.31	-1.01
France	01/00	4.000	99.3500	4.34	+0.02	-0.01	-0.01	+0.82
	10/04	6.750	109.6100	5.05	+0.03	-0.11	-0.24	-0.21
	10/07	5.500	101.3400	5.32	+0.03	-0.06	-0.27	-0.50
	10/25	6.000	101.9800	5.85	+0.03	-0.08	-0.32	-0.98
Germany	09/99	4.000	99.6800	4.19	+0.04	-0.05	-	+0.74
	11/04	7.500	113.3200	5.15	+0.02	-0.03	-0.17	-0.35
	07/07	6.000	104.9900	5.31	+0.02	-0.08	-0.27	-0.55
	07/27	6.500	108.5800	5.88	+0.02	-0.07	-0.32	-0.88
Ireland	04/99	6.250	101.4000	5.07	+0.04	-0.07	-0.40	-0.98
	08/06	8.000	116.0500	5.60	+0.02	-0.14	-0.48	-1.19
Italy	05/00	6.000	102.2900	4.97	+0.01	-0.13	-0.29	-1.46
	05/02	6.250	103.8700	5.25	+0.01	-0.13	-0.32	-1.60
	07/07	6.750	107.8900	5.67	+0.02	-0.10	-0.39	-1.88
	11/26	7.250	114.7100	6.15	+0.01	-0.11	-0.44	-2.00
Japan	03/00	6.400	112.7000	0.67	+0.07	+0.16	+0.33	-0.03
	12/02	4.800	118.7700	1.32	+0.07	+0.08	+0.09	-0.43
	09/05	3.000	108.9300	1.76	+0.07	+0.05	+0.01	-0.64
	09/17	3.000	106.5300	2.58	+0.06	+0.04	+0.02	-0.65
Netherlands	11/99	7.500	105.5600	4.37	+0.01	+0.03	+0.04	+0.95
	02/07	5.750	103.3200	5.28	+0.02	-0.09	-0.28	-0.52
New Zealand	02/00	6.500	97.1816	7.98	+0.36	+0.57	+0.98	+0.91
	11/06	8.000	103.7303	7.41	+0.29	+0.41	+0.67	-0.02
Norway	01/99	9.000	104.8300	4.43	+0.05	+0.01	-0.06	-0.30
	01/07	6.750	108.6500	5.51	+0.04	-0.04	-0.26	-1.01
Portugal	03/99	8.500	104.3503	4.80	+0.01	-0.02	-0.21	-1.25
	02/07	6.625	106.7375	5.66	+0.01	-0.11	-0.29	-1.33
Spain	07/99	7.400	104.1933	4.60	-	-0.05	-0.14	-1.32
	03/07	7.350	112.3540	5.60	+0.02	-0.10	-0.30	-1.45
Sweden	01/99	11.000	106.0230	5.11	+0.03	-0.08	+0.02	+0.35
	08/07	8.000	114.0460	6.03	+0.05	-0.13	-0.35	-0.87
Switzerland	03/00	5.000	108.4000	2.02	+0.01	+0.24	-0.07	-0.07
	06/07	4.500	109.3000	3.34	+0.01	-0.13	-0.29	-0.58
UK	08/99	6.000	98.6796	6.85	+0.03	-0.09	-0.27	+0.27
	11/04	6.750	101.7057	6.43	+0.03	-0.11	-0.31	-1.93
	12/07	7.250	106.7031	6.32	+0.04	-0.07	-0.20	-1.29
	06/21	8.000	120.8359	6.29	+0.04	-0.02	-0.25	-1.51
US*	10/99	5.625	99.0433	5.71	+0.04	-0.04	-0.02	-0.14
	11/04	7.875	111.7306	5.79	-	-0.11	-0.08	-0.38
	08/07	6.125	102.4220	5.79	+0.02	-0.11	-0.05	-0.62
	08/27	6.375	104.6840	6.03	+0.02	-0.11	-0.09	-0.63
ECU	01/00	4.000	98.6200	4.70	+0.02	+0.06	+0.02	+0.56
	04/07	5.500	100.4200	5.44	+0.03	-0.08	-0.30	-0.73

London closing. *New York mid day. Source: Interactive Data/FT Information. Yields: Local market standard. Annualised yield basis. Yields shown for Italy include withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Dec 17	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.21	+0.90	+0.42
Austria	5.39	+0.08	-0.40
Belgium	5.43	+0.12	-0.36
Canada	5.71	+0.40	-0.08
Denmark	5.70	+0.39	-0.09
Finland	5.45	+0.14	-0.34
France	5.32	+0.01	-0.47
Germany	5.31	-	-0.48
Ireland	5.60	+0.29	-0.19
Italy	5.67	+0.36	-0.12
Japan	1.76	-3.55	-4.03
Netherlands	5.28	-0.03	-0.51
New Zealand	7.41	+2.10	+1.62
Norway	5.51	+0.20	-0.28
Portugal	5.66	+0.35	-0.13
Spain	5.60	+0.29	-0.19
Sweden	6.03	+0.72	+0.24
Switzerland	3.33	-1.98	-2.46
UK	6.32	+1.01	+0.53
US	5.79	+0.48	-
ECU	5.44	+0.13	-0.35

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis

EMERGING MARKET BONDS

Dec 17	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
[illegible]								
■ LATIN AMERICA								
[illegible]								
■ ASIA								
[illegible]								
■ AFRICA/MIDDLE EAST								
[illegible]								
■ BRADY BONDS								
[illegible]								

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	100.96	100.98	-0.18	101.08	100.84	10,397	142,629
Jun	100.40	100.38	-0.18	100.40	100.30	15	112
Sep	100.40	100.38	-0.18	100.40	100.40	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
96	3.96	3.97	4.04	-	0.03	0.11
97	2.96	3.02	3.13	-	0.08	0.19
98	1.97	2.13	2.27	0.01	0.18	0.32
99	1.04	1.33	1.51	0.08	0.37	0.55
100	0.33	0.70	0.90	0.37	0.74	0.93

Est. vol. total, Calls 4,670 Puts 9,227. Previous day's open int., Calls 70,723 Puts 102,483.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	104.36	104.39	-0.14	104.45	104.21	113609	249302
Jun	103.80	103.81	-0.14	103.80	103.76	27	1070

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10400	0.47	0.81	1.06	1.24	0.08	0.42	0.67	1.43
10450	0.16	0.52	0.78	1.00	0.27	0.63	0.89	1.69
10500	0.03	0.31	0.56	0.79	0.64	0.92	1.17	1.98

Est. vol. total, Calls 9467 Puts 26249. Previous day's open int., Calls 173526 Puts 182953

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.85	103.87	-0.11	103.95	103.83	65,007	186,834

■ NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	103.86	103.91	-0.07	103.94	103.84	5,733	18,032
Jun	-	103.33	-0.07	-	-	-	-

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

[illegible]

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE)

[illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

[illegible]

■ LONG GILT FUTURES OPTIONS (LIFFE)

[illegible]

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

[illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

US CORPORATE BONDS

Dec 16	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	104.1150	6.19	-	-0.05	+0.46
NY Tel	08/25	7.00	A+	98.8470	7.09	-0.01	-0.08	+1.14
CWE	05/08	8.00	BBB	109.2467	6.74	-0.01	-0.07	+0.98
■ FINANCIALS								
GECC	05/07	8.75	AAA	116.9267	6.33	-0.01	-0.10	+0.57
Banc One	08/02	7.25	A+	103.9350	6.25	-	-0.06	+0.52
US West	01/07	7.30	BBB+	103.2369	6.81	-	-0.10	+1.05
■ INDUSTRIALS								
WMX Tech	04/99	6.25	A-	99.6361	6.37	-0.02	+0.06	+0.72
Wal Mart	05/02	6.75	AA	102.3639	6.12	-0.03	-0.09	+0.39
Dayton Hud	06/21	9.70	BBB+	130.2036	7.04	-0.03	-0.15	+1.09
■ AGENCIES								
FHLMC	04/07	7.14	N/A	107.3957	6.08	-	-0.06	+0.32
SLMA	03/00	7.50	N/A	103.4115	5.83	-	-	+0.15
FNMA	02/18	8.95	N/A	129.1637	6.36	-0.01	-0.13	+0.41
FFCB	06/06	8.95	N/A	118.7339	6.08	-	-0.07	+0.32
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.8750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	103.5000	0.00	-	-	-
Pacalta	06/04	10.75	B-	97.5000	0.00	-	-	-

New York closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

Dec 17	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	102.7900	5.35	-0.01	-0.31	+0.04
Spain	01/07	5.750	AA	101.9200	5.47	+0.01	-0.28	+0.16
Philip Morris	03/04	5.375	A	99.4200	5.48	+0.01	-0.24	+0.40
Finland FRN	09/02	3.820	AA	100.7390	4.41	+0.02	-0.21	-0.43
■ EURO FFR								
Austria	01/04	5.500	AAA	102.1300	5.08	+0.03	-0.24	+0.03
Abbey Nat	02/04	6.000	AA	104.1000	5.20	+0.04	-0.19	+0.15
Cred Foncier	02/04	9.125	A	118.5000	5.50	+0.03	-0.22	+0.45
3CIF FRN	12/01	3.750	AA-	99.8519	4.55	+0.01	-0.41	-0.17
■ EURO LIRA								
EIB	02/07	7.000	AAA	109.7600	5.60	-0.01	-0.40	-0.07
Abbey Nat	02/02	6.800	AA	105.1000	5.39	-	-0.30	+0.14
Walt Disney	06/00	8.625	A	107.3500	5.38	+0.12	-0.29	+0.41
EIB FRN	03/01	5.825	AAA	100.2571	4.87	+0.01	-0.23	-0.24
■ EURO £								
EIB	12/07	7.625	AAA	107.2239	6.61	+0.04	-0.40	+0.29
Dresdner Bk	12/07	7.750	AA-	104.6643	7.08	+0.04	-0.34	+0.76
British Gas	03/00	7.625	A+	100.4418	7.38	+0.03	-0.15	+0.64
Abbey Nat FRN	02/02	7.830	AA	100.0245	6.53	+0.04	-0.30	-0.01
■ EURO $								
EIB	04/07	7.250	AAA	107.7395	6.13	-0.02	-0.20	+0.34
ABN Amro	06/07	7.125	AA-	104.3738	6.50	+0.01	-0.13	+0.71
Quebec	01/07	7.000	A+	103.5254	6.48	-0.01	-0.14	+0.69
Citicorp FRN	02/04	5.938	A+	99.4212	6.05	-	+0.13	+0.28
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.2311	6.07	+0.02	+0.44	+0.20
Toronto	05/04	8.500	AA+	113.0122	5.99	+0.09	+0.41	+0.12
Bell Canada	07/99	10.625	A+	107.0872	5.71	+0.11	+0.87	+0.13
Deutsche B FRN	06/02	5.875	AAA	101.0022	5.63	+0.04	+0.28	-0.14
■ EURO YEN								
World Bank	03/02	5.250	AAA	117.0700	1.12	+0.05	+0.12	-0.04
Spain	03/02	5.750	AA	118.7500	1.20	+0.09	+0.11	+0.04
Cred Foncier	06/02	4.750	A	113.7024	1.65	+0.07	+0.15	+0.49
Italy FRN	07/99	0.594	AA	100.3386	0.45	+0.09	+0.31	-0.16

London closing. Source: Interactive Data/FT Information. Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

[illegible]

FT Fixed Interest Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

Dollar slumps after Japan intervenes

MARKETS REPORT

By Simon Kuper

The Bank of Japan sold dollars in the market for the first time in more than five years yesterday, sending the US currency plummeting against the yen.

Traders said the central bank had sold more than $1bn, and had made its intervention known. Eisuke Sakakibara, Japan's vice finance minister for international affairs, said: "We have taken decisive measures to cope with an excessive depreciation of the yen. There will be no change in Japan's stance on the currency market."

The dollar sales followed a one-off tax cut worth Y2,000bn ($78bn) revealed earlier by Ryutaro Hashimoto, Japanese prime minister. Japan also announced Y2,000bn in additional or accelerated public spending, and plans a Y10,000bn package to support the troubled financial system. Most of the measures were intended to stimulate the Japanese economy. "We will not trigger a worldwide recession from Japan," Mr Hashimoto said.

The dollar initially fell nearly Y6 to Y125.70. Nick Parsons, currency strategist at Paribas Capital Markets in London, said: "Volumes were exceptionally high in late Asian and early European trading. The dollar was being thrown around in lumps of $100m at a time. It was a bit like a heavyweight boxing match." Investors accelerated the dollar's fall by hedging yen put options.

However, the US currency recovered as the day went on and no evidence appeared that other central banks had intervened for the yen. Robert Rubin, US treasury secretary, praised Japan's stimulus and financial stabilisation measures but made no comment on its market intervention.

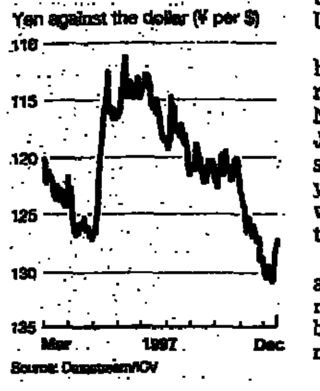
Jim O'Neill, chief currency economist at Goldman Sachs in London, said: "Everything to do with the States, including its policymakers, is held in such esteem these days. If Mr Rubin were to come out and bless the intervention, or if the US were to intervene itself, it would have much more impact." Traders wanted to know that Japan had not been acting alone, he said.

The yen closed in London Y3.5 higher against the dollar at Y127.3. It jumped Y1.47 against the D-Mark to Y71.85. The dollar dropped 1.3 pfennigs to DM1.772.

■ Will the yen rise further? Few in the market believe so, even though yesterday's tax cuts and intervention surprised most of them.

Japan

Yen against the dollar (¥ per $)



Source: Datastream/ICV

Currency strategists say the tax cuts are minor, given that Japan raised taxes earlier this year by about Y7,500bn. Philippa Malmgren, the strategist at Bankers Trust in London who warned last week that intervention was imminent, said: "Are consumers going to go out and buy washing machines? I don't think so. They are highly likely to save the money, so it is highly likely to end up in the US Treasury market."

Michael Rosenberg, global head of fixed-income research at Merrill Lynch in New York, pointed out that Japan had applied fiscal stimulus for four or five years earlier in the 1990s without managing to boost the economy significantly.

Japan could intervene again – its foreign exchange reserves total about $228bn – but few strategists expect many more dollar sales.

Mr Parsons pointed out that the outlook for Japan had changed radically since May, when warnings of intervention sent the dollar plunging by Y17. "Japan seemed to be on the verge of an economic recovery then. That doesn't characterise the situation at the moment," he said. Furthermore, in May other Asian currencies were still strong. Today a yen rally would make Japan's exports even less competitive compared with those of its neighbours.

■ So why did Japan intervene, if it had little chance of boosting the yen durably? Strategists say the point was to remind the market that the yen could rise as well as fall, thus preventing an uncontrollable depreciation. Japan's verbal threats of intervention last week were too weak to achieve that. Yesterday's intervention, Mr O'Neill said, was "enough to make it more of a symmetric market." The yen would track the Nikkei stock index for the next few days, he added. Ms Malmgren said: "They are providing us with a great buying opportunity."

■ **Pound in New York**

Dec 17	— Latest —	— Prev. close —
£ spot	1.6505	1.6355
1 mth	1.6482	1.6332
3 mth	1.6435	1.6285
1 yr	1.6244	1.6100

■ **OTHER CURRENCIES**

Dec 17	£	$
Czech Rp	58.2399 - 58.3399	34.1780 - 34.2180
Hungary	330.614 - 330.897	200.920 - 200.970
Iran	4939.50 - 4936.50	3000.00 - 3000.00
Kuwait	0.5012 - 0.5017	0.3046 - 0.3047
Poland	5.7395 - 5.7463	3.4880 - 3.4900
Russia	9744.65 - 9752.22	5922.00 - 5923.00
U.A.E.	6.0428 - 6.0471	3.6723 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Dec 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.5176	+0.0096	077 - 274	20.5805	20.3967	20.4514	3.9	20.3269	3.7	19.8452	3.3	102.6
Belgium	(BFr)	60.1613	+0.008	101 - 125	60.2960	59.7760	59.9571	4.1	59.5902	3.8	58.1256	3.4	102.1
Denmark	(DKr)	11.1135	+0.0031	084 - 185	11.1410	11.0421	11.0786	3.8	11.013	3.6	10.7679	3.1	104.4
Finland	(FM)	8.8003	+0.0047	929 - 076	8.8220	8.7430	8.768	4.4	8.712	4.0	8.5017	3.4	81.1
France	(FFr)	9.7647	+0.0024	578 - 716	9.7929	9.7076	9.7314	4.1	9.6712	3.8	9.4278	3.4	105.6
Germany	(DM)	2.9163	+0.0014	150 - 176	2.9241	2.8955	2.9068	3.9	2.8887	3.8	2.8165	3.4	103.3
Greece	(Dr)	459.423	+0.192	996 - 851	460.613	456.175	462.545	-8.2	468.684	-8.1	488.528	-6.3	65.4
Ireland	(I£)	1.1284	+0.001	273 - 295	1.1309	1.1265	1.1273	1.2	1.1238	1.6	1.1023	2.3	96.8
Italy	(L)	2860.75	+3.24	922 - 228	2866.61	2839.66	2857.57	1.3	2850.12	1.5	2797.26	2.2	76.0
Luxembourg	(LFr)	60.1613	+0.008	101 - 125	60.2960	59.7760	59.9571	4.1	59.5902	3.8	58.1256	3.4	102.1
Netherlands	(Fl)	3.2868	+0.0015	849 - 888	3.2941	3.2657	3.2753	4.2	3.255	3.9	3.1731	3.5	101.5
Norway	(NKr)	11.9065	-0.0338	008 - 123	11.9720	11.8750	11.8661	4.1	11.7947	3.8	11.5417	3.1	98.7
Portugal	(Es)	298.074	+0.174	951 - 198	300.268	296.384	297.435	2.6	296.091	2.7	289.591	2.8	91.7
Spain	(Pta)	246.810	+0.02	726 - 893	247.550	245.280	246.256	2.7	245.127	2.7	239.744	2.9	76.8
Sweden	(SKr)	12.7438	+0.0134	358 - 518	12.7829	12.6815	12.7129	2.9	12.6559	2.8	12.4631	2.2	85.7
Switzerland	(SFr)	2.3637	+0.0064	621 - 652	2.3728	2.3493	2.3513	6.3	2.3293	5.8	2.2351	5.4	108.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.1
Ecu	-	1.4768	+0.0001	758 - 773	1.4804	1.4663	1.4727	3.2	1.4651	3.1	1.4343	2.9	-
SDR†	-	1.210136	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6457	+0.0126	452 - 462	1.6567	1.6352	-	-	-	-	-	-	-
Brazil	(R$)	1.8337	+0.0162	329 - 344	1.8449	1.8206	-	-	-	-	-	-	-
Canada	(C$)	2.3402	+0.0153	391 - 413	2.3569	2.3303	2.3343	3.0	2.3239	2.8	2.2887	2.2	82.8
Mexico	(New Peso)	13.3071	+0.0904	956 - 185	13.4101	13.2557	13.4577	-13.6	13.7101	-12.1	14.8871	-11.9	-
USA	($)	1.6460	+0.0126	455 - 465	1.6570	1.6355	1.6438	1.6	1.6389	1.7	1.62	1.6	107.6
Pacific/Middle East/Africa													
Australia	(A$)	2.5002	-0.0114	985 - 019	2.5200	2.4904	2.4952	2.4	2.4851	2.4	2.4461	2.2	85.1
Hong Kong	(HK$)	12.7549	+0.0968	502 - 596	12.8401	12.6748	12.7509	0.4	12.7989	-1.4	13.1933	-3.4	-
India	(Rs)	64.8442	+0.5454	998 - 886	65.2530	64.6130	-	-	-	-	-	-	-
Israel	(Shk)	5.8249	+0.037	150 - 347	5.8347	5.8150	-	-	-	-	-	-	-
Japan	(Y)	209.536	-4.186	390 - 682	215.160	206.690	208.246	7.4	205.886	7.0	195.396	6.7	120.9
Malaysia	(M$)	6.2631	-0.0549	529 - 732	6.3511	6.2403	6.2497	2.6	6.2471	1.0	6.3667	-1.7	-
New Zealand	(NZ$)	2.8125	+0.0004	104 - 145	2.8543	2.7936	2.8151	-1.1	2.819	-0.9	2.8356	-0.8	101.9
Philippines	(Peso)	65.4287	-0.3298	973 - 600	66.2378	64.9973	66.4216	-18.2	68.2445	-17.2	75.8324	-16.1	-
Saudi Arabia	(SR)	6.1733	+0.0469	706 - 760	6.2136	6.1351	6.1655	1.5	6.15	1.5	6.0877	1.4	-
Singapore	(S$)	2.7694	-0.0148	661 - 727	2.7853	2.7507	2.7879	-8.0	2.8076	-5.5	2.8229	-1.9	-
South Africa	(R)	7.9996	+0.0213	947 - 045	8.0671	7.9894	8.0645	-9.7	8.1572	-7.9	8.5358	-6.7	-
South Korea	(Won)	2441.02	+110.2	699 - 505	2504.05	2338.76	-	-	-	-	-	-	-
Taiwan	(T$)	53.5774	-0.2179	117 - 430	53.8856	53.3276	53.5234	1.2	53.4029	1.3	52.9133	1.2	-
Thailand	(Bt)	77.3621	-1.041	917 - 325	78.3250	74.4850	77.9155	-8.6	78.9983	-8.5	82.8205	-6.8	-

† Rates for Dec 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.

The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.4651	-0.0903	629 - 673	12.5319	12.3920	12.4416	2.3	12.4021	2.0	12.2501	1.7	102.5
Belgium	(BFr)	36.5500	-0.277	300 - 700	36.7750	36.3270	36.475	2.5	36.358	2.1	35.88	1.8	102.4
Denmark	(DKr)	6.7518	-0.0502	508 - 528	6.7902	6.7094	6.7397	2.2	6.7194	1.9	6.6468	1.6	104.1
Finland	(FM)	5.3465	-0.0383	436 - 493	5.3742	5.3135	5.334	2.8	5.3155	2.3	5.248	1.8	80.6
France	(FFr)	5.9324	-0.0443	300 - 348	5.9702	5.8970	5.9202	2.5	5.9007	2.1	5.8197	1.9	105.4
Germany	(DM)	1.7718	-0.0128	715 - 720	1.7825	1.7599	1.7684	2.3	1.7626	2.1	1.7386	1.9	103.3
Greece	(Dr)	279.115	-2.035	940 - 290	280.890	275.920	281.39	-9.8	285.96	-9.8	301.56	-8.0	65.4
Ireland	(I£)	1.4587	+0.0099	577 - 597	1.4657	1.4540	1.4582	0.5	1.4585	0.1	1.4697	-0.8	-
Italy	(L)	1738.00	-11.43	760 - 840	1748.80	1725.32	1738.41	-0.3	1738.95	-0.2	1726.7	0.7	76.0
Luxembourg	(LFr)	36.5500	-0.277	300 - 700	36.7750	36.3270	36.475	2.5	36.358	2.1	35.88	1.8	102.4
Netherlands	(Fl)	1.9968	-0.0145	963 - 973	2.0080	1.9842	1.9925	2.6	1.9859	2.2	1.9587	1.9	101.7
Norway	(NKr)	7.2336	-0.0765	322 - 349	7.3111	7.2060	7.2188	2.5	7.1963	2.1	7.1245	1.5	97.7
Portugal	(Es)	181.090	-1.29	070 - 110	181.760	180.130	180.946	1.0	180.655	1.0	178.76	1.3	92.5
Spain	(Pta)	149.945	-1.145	940 - 950	150.510	149.030	149.81	1.1	149.56	1.0	147.99	1.3	76.7
Sweden	(SKr)	7.7423	-0.0515	398 - 448	7.7759	7.7021	7.734	1.3	7.7218	1.1	7.6833	0.8	85.5
Switzerland	(SFr)	1.4360	-0.0072	355 - 365	1.4410	1.4295	1.4304	4.7	1.4211	4.1	1.3797	3.9	108.9
UK	(£)	1.6460	+0.0126	455 - 465	1.6570	1.6355	1.6438	1.6	1.6389	1.7	1.62	1.6	102.2
Ecu	-	1.1148	+0.0085	145 - 150	1.1210	1.1080	1.1163	-1.6	1.1187	-1.4	1.1296	-1.3	-
SDR†	-	0.74232	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1140	+0.0013	139 - 141	1.1140	1.1135	-	-	-	-	-	-	-
Canada	(C$)	1.4218	-0.0016	215 - 220	1.4255	1.4187	1.4201	1.4	1.418	1.1	1.4128	0.6	83.2
Mexico	(New Peso)	8.0845	-0.007	800 - 890	8.0890	8.0780	8.187	-15.2	8.365	-13.9	9.1895	-13.7	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	109.4
Pacific/Middle East/Africa													
Australia	(A$)	1.5189	-0.0187	184 - 195	1.5227	1.5184	1.5181	0.6	1.5155	0.9	1.5048	0.9	86.2
Hong Kong	(HK$)	7.7490	-0.0005	485 - 495	7.7500	7.7485	7.757	-1.2	7.809	-3.1	8.144	-5.1	-
India	(Rs)	39.3950	+0.03	800 - 100	39.4550	39.3700	-	-	-	-	-	-	-
Israel	(Shk)	3.5388	-0.0047	339 - 437	3.5437	3.5275	-	-	-	-	-	-	-
Japan	(Y)	127.300	-3.545	250 - 350	131.530	125.800	126.685	5.8	125.605	5.3	120.615	5.3	118.7
Malaysia	(M$)	3.8050	-0.063	000 - 100	3.8750	3.7850	3.802	0.9	3.8115	-0.7	3.93	-3.3	-
New Zealand	(NZ$)	1.7087	-0.0129	079 - 094	1.7094	1.7079	1.7118	-2.2	1.7172	-2.0	1.736	-1.6	-
Philippines	(Peso)	39.7500	-0.505	000 - 000	40.5000	39.5000	40.4075	-19.8	41.638	-19.0	46.871	-17.9	-
Saudi Arabia	(SR)	3.7505	-0.0002	500 - 510	3.7510	3.7500	3.7506	-0.1	3.7524	-0.2	3.7579	-0.2	-
Singapore	(S$)	1.6825	-0.022	810 - 840	1.7010	1.6710	1.696	-8.6	1.713	-7.3	1.7425	-3.6	-
South Africa	(R)	4.8600	-0.0245	585 - 615	4.8820	4.8585	4.906	-11.4	4.977	-9.6	5.269	-8.4	-
South Korea	(Won)	1483.00	+58	100 - 500	1525.00	1460.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.5500	-0.3845	200 - 800	32.9000	32.4970	32.561	-0.4	32.5825	-0.4	32.6825	-0.3	-
Thailand	(Bt)	47.0000	-1	500 - 500	48.0500	45.2000	47.4	-10.2	48.2	-10.2	51	-8.5	-

† SDR rate per $ for Dec 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 15: Base average 1990=100.

The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

December 17	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	4	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.75
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.75	6.25	6.17
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ **$ LIBOR FT London**								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	6.07	5.29	5.40	5.55	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds)

EURO CURRENCY INTEREST RATES

Dec 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	4 - 3½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
German Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	5 - [illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	[illegible] - 4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	8 - 7½	8½ - 8	[illegible]	[illegible]	8 - 7½

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.17	96.16	-0.15	96.17	96.15	15,446	81,747
Jun	95.98	95.97	-0.32	95.98	95.95	3,415	39,533
Sep	95.82	95.81	-0.41	95.82	95.80	280	29,446

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.16	96.16	-0.01	96.17	96.15	31305	377510
Jun	95.96	95.97	-0.01	95.98	95.95	23249	331716
Sep	95.81	95.81	-0.01	95.82	95.79	14981	232365
Dec	95.58	95.60	-0.01	95.61	95.57	12475	213405

■ **ONE MONTH EUROMARK FUTURES** (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jan		96.40	-			0	633
Feb		96.32	-			0	133
Mar		96.26	-			0	100
Apr		96.23	-			0	50

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.62	94.62	-0.01	94.64	94.57	21912	148813
Jun	95.23	95.23	-0.01	95.24	95.18	14597	129214
Sep	95.41	95.44	+0.01	95.45	95.41	6792	87303
Dec	95.39	95.42	-0.01	95.43	95.39	1863	61635

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.20	98.25	+0.05	98.25	98.17	7919	66517
Jun	98.05	98.09	+0.04	98.09	98.01	3376	32528
Sep	97.93	97.95	+0.04	97.95	97.87	895	17229
Dec	97.70	97.72	+0.04	97.70	97.65	181	7546

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.25	99.24	+0.05	99.25	99.25	2447	na
Jun	99.29	99.29	+0.03	99.29	99.29	1238	na
Sep	99.28	99.28	+0.02	99.28	99.28	1315	na

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.48	95.50	-	95.50	95.48	698	8474
Jun	95.47	95.46	-0.01	95.47	95.46	93	6156
Sep	95.41	95.42	-	95.41	95.41	27	8083
Dec	95.48	95.48	-0.02	95.49	95.48	45	3858

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9450	0.26	0.78	1.00	0.14	0.05	0.06
9475	0.14	0.57	0.78	0.27	0.09	0.09
9500	0.05	0.38	0.58	0.43	0.15	0.14

Est. vol. total, Calls 4470 Puts 608. Previous day's open int., Calls 158527 Puts 51672

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.23	4.848	1.876	4755	5.463	19.79	495.5	410.2	21.18	3.929	1.662	3.890	2.736	348.3	2.454
Denmark	(DKr)	54.13	10	8.786	2.624	1.015	2574	2.957	10.71	268.2	222.1	11.47	2.127	0.900	2.106	1.481	188.5	1.329
France	(FFr)	61.61	11.38	10	2.987	1.156	2930	3.366	12.19	305.3	252.8	13.05	2.421	1.024	2.397	1.686	214.6	1.512
Germany	(DM)	20.63	3.811	3.348	1	0.387	980.9	1.127	4.083	102.2	84.63	4.370	0.810	0.343	0.802	0.564	71.85	0.506
Ireland	(I£)	53.32	9.849	8.654	2.585	1	2535	2.913	10.55	264.2	218.7	11.29	2.095	0.886	2.074	1.459	185.7	1.308
Italy	(L)	2.103	0.388	0.341	0.102	0.039	100	0.115	0.416	10.42	8.627	0.445	0.083	0.035	0.082	0.058	7.325	0.052
Netherlands	(Fl)	18.30	3.381	2.971	0.887	0.343	870.4	1	3.623	90.69	75.09	3.877	0.719	0.304	0.712	0.501	63.75	0.449
Norway	(NKr)	50.53	9.334	8.201	2.449	0.948	2403	2.760	10	250.3	207.3	10.70	1.985	0.840	1.966	1.382	176.0	1.240
Portugal	(Es)	20.18	3.728	3.276	0.978	0.379	959.7	1.103	3.994	100	82.80	4.275	0.793	0.335	0.785	0.552	70.30	0.495
Spain	(Pta)	24.38	4.503	3.956	1.182	0.457	1159	1.332	4.824	120.8	100	5.163	0.958	0.405	0.948	0.667	84.90	0.598
Sweden	(SKr)	47.21	8.721	7.662	2.288	0.885	2245	2.579	9.343	233.9	193.7	10	1.855	0.785	1.836	1.292	164.4	1.159
Switzerland	(SFr)	25.45	4.702	4.131	1.234	0.477	1210	1.391	5.037	126.1	104.4	5.392	1	0.423	0.990	0.696	88.65	0.625
UK	(£)	60.16	11.11	9.765	2.916	1.128	2861	3.287	11.91	298.1	246.8	12.74	2.364	1	2.340	1.646	209.5	1.477
Canada	(C$)	25.71	4.749	4.172	1.246	0.482	1222	1.404	5.088	127.4	105.5	5.445	1.010	0.427	1	0.703	89.53	0.631
USA	($)	36.55	6.752	5.932	1.772	0.686	1738	1.997	7.234	181.1	149.9	7.742	1.436	0.608	1.422	1	127.3	0.897
Japan	(Y)	28.71	5.304	4.660	1.392	0.539	1365	1.569	5.682	142.3	117.8	6.082	1.128	0.477	1.117	0.786	100	0.705
Ecu	-	40.75	7.527	6.613	1.975	0.764	1938	2.226	8.064	201.9	167.2	8.631	1.601	0.677	1.585	1.115	141.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5642	0.5684	+0.0038	0.5712	0.5640	11,770	82,424
Jun	0.5714	0.5714	+0.0071	0.5730	0.5704	20	4,392
Sep	-	0.5746	+0.0075	0.5746	-	7	140

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7014	0.7034	+0.0047	0.7071	0.7005	8,788	35,439
Jun	-	0.7100	+0.0016	0.7130	-	43	1,470
Sep	-	0.7153	-	-	-	6	110

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.7753	0.7969	+0.0321	0.8067	0.7704	9,689	97,034
Jun	0.8105	0.8070	+0.0315	0.8120	0.8065	24	1,672
Sep	0.8210	0.8210	+0.0348	0.8210	0.8200	2	1,270

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.6282	1.6412	+0.0102	1.6480	1.6280	6,781	32,539
Jun	-	1.6340	+0.0114	1.6400	-	17	1,265
Sep	-	1.6300	+0.0142	1.6340	-	7	4

UK INTEREST RATES

LONDON MONEY RATES

Dec 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible] - 7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible] - 7	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Dec 12, 7.0303pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 28, 1997. Agreed rate for period Dec 24, 1997 to Jan 28, 1998, Scheme III 8.84pc. Reference rate for period Nov 1, 1997 to Nov 28, 1997, Schemes IV & V 7.601pc. Finance House Base Rate 7½pc from Dec 1, 1997

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.28	92.25	-0.03	92.28	92.25	16423	126708
Mar	92.39	92.37	-0.02	92.39	92.35	29881	138642
Jun	92.49	92.47	-0.03	92.51	92.45	17197	105566
Sep	92.68	92.63	-0.04	92.66	92.61	13097	82652
Dec	92.85	92.83	-0.03	92.86	92.80	7035	76895

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9225	0	0.20	0.34	0	0.08	0.12
9250	0	0.08	0.19	0.25	0.19	0.22
9275	0	0.02	0.09	0.50	0.40	0.37

Est. vol. total, Calls 2484 Puts 4080. Previous day's open int., Calls 250125 Puts 229479

EMS EUROPEAN CURRENCY UNIT RATES

Dec 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.764209	+0.000588	-4.32	7.08	29
Italy	1906.48	1933.90	+2.01	1.44	1.00	-10
Finland	5.85424	5.95097	+0.00275	1.65	0.79	-11
Spain	163.826	166.977	+0.121	1.92	0.52	-13
Portugal	197.398	201.662	+0.188	2.16	0.29	-15
France	6.45863	6.60511	+0.00234	2.27	0.18	-19
Denmark	7.34555	7.51525	+0.00199	2.31	0.14	-16
Germany	1.92573	1.97203	+0.00053	2.40	0.05	-24
Austria	13.5485	13.8740	+0.0033	2.40	0.05	-18
Netherlands	2.16979	2.22245	+0.00055	2.43	0.03	-18
Belgium	39.7191	40.6939	+0.0114	2.45	0.00	-16
NON ERM MEMBERS						
Greece	295.269	310.756	-0.093	5.25	-2.65	-
UK	0.793103	0.676490	-0.001784	-14.70	20.12	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
1.640	1.41	2.18	2.51	2.04	2.82	3.54
1.650	1.05	1.68	2.13	2.60	3.42	-
1.660	0.72	1.28	1.77	3.30	-	-

Previous day's vol., Calls 102 Puts 52 . Prev. day's open int., Calls 21,539 Puts 20,186

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
0.560	0.75	1.05	1.30	0.55	0.78	0.95
0.565	0.50	0.80	1.05	0.82	1.03	1.20
0.570	0.34	0.60	0.83	1.15	1.38	1.49

Previous day's vol., Calls 1,008 Puts 2,448. Prev. day's open int., Calls 9,095 Puts 16,786

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.17	94.17	-	94.18	94.14	76,143	491,939
Jun	94.17	94.16	-0.01	94.17	94.12	46,259	385,631
Sep	94.09	94.12	-0.01	94.13	94.08	40,524	263,112

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.04	95.05	-0.02	95.05	95.04	118	7,042
Jun	95.07	95.07	+0.01	95.10	95.06	25	1,093
Sep	-	95.06	-0.01	-	95.06	1	23

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9600	0.18	0.20	0.21	0.14	0.02	0.04	0.05	0.17
9625	0.03	0.05	0.06	0.05	0.12	0.14	0.15	0.33
9650	0.01	0.01	0.01	0.01	0.35	0.35	0.35	0.54
9675	0	0	0	0	0.59	0.59	0.59	0.78

Est. vol. total, Calls 3500 Puts 10503. Previous day's open int., Calls 258694 Puts 295537

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9850	0.05	0.06	0.07	0.30	0.47	0.62
9875	0.01	0.02	0.02	0.51	0.68	0.82

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 886

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Banking Corp Ltd	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Prices for Trading on 18.12.97 — Final Prices for Trading on 20.11.97

½ hour period ending	Pool purchase price	Pool selling price	Pool purchase price	TS use of system
0030 - 2400	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

NOTICE

The United Mexican States

Value Recovery Rights, Series A

NOTICE IS HEREBY GIVEN pursuant to the Fiscal Agency Agreement dated as of March 28, 1990 (the "Agreement") under which the above Rights were issued that the Fiscal Agent has received a Calculation Report for the Payment Date occurring on December 31, 1997 from the International Monetary Fund, as Calculation Agent for the Rights under the Agreement, setting forth the following amounts:

Current Oil Price	US$	17.9100
Reference Oil Price	US$	17.6930
Current Oil Revenues	US$	2,560,692,668
Excess Base Revenues	US$	164,433,010
Excess Price Revenues	US$	9,304,521

Based upon the Calculation Report the Fiscal Agent has calculated for said Payment Date the following amounts:

Value Recovery Payment	US$	0.00019447208265317600
Carryforward Amount	US$	0

CITIBANK

December 18, 1997

By: Citibank, N.A. as Fiscal Agent

SOCIETE GENERALE
FRF 500 000 000
Subordinated Floating Rate Notes due 2001
ISIN CODE : XS0032089822

For the period December 17, 1997 to March 18, 1998 the new rate has been fixed at 3.75 % P.A.
Next payment date : March 18, 1998
Coupon nr : 28
Amount :
FRF 189.58 for the denomination of FRF 20 000

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE
BANK & TRUST S.A. - LUXEMBOURG

SOCIETE GENERALE
FRF 500 000 000
SUBORDINATED FLOATING RATE NOTES DUE 2001
ISIN CODE : XS0032089822

In accordance with the Terms and Conditions of the Notes, notice is hereby given that the Interest Payment Dates in 1998 in respect of the subject Notes shall be as follows :
March 18, 1998
June 17, 1998
September 16, 1998
December 16, 1998

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE
BANK & TRUST S.A. - LUXEMBOURG

COMMODITIES AND AGRICULTURE

Falconbridge may advance smelter

By Kenneth Gooding, Mining Correspondent

Falconbridge, the Canadian mining group, yesterday hinted that it might be able to speed up the start of a $1bn nickel smelter project in New Caledonia.

The 54,000-tonnes a year project has been at the centre of a dispute related to the French government's efforts to placate local separatists in the French Pacific territory ahead of a referendum about its independence.

"We are committed to the project," a Falconbridge official insisted. "We want to get on with a feasibility study." Previously Falconbridge had suggested that construction of the smelter might begin by 2006 and the French government called for it to be brought forward. Falconbridge pointed out that this was the maximum time the group would need.

Falconbridge wanted to press ahead as quickly as possible with the feasibility study. However, this would depend on a satisfactory outcome to negotiations about a swap of assets between Eramet, the French ferro-nickel, special steels and manganese group, and SMSP (Société Minière du Sud Pacifique), controlled by New Caledonian Kanak nationalists. Timing of the smelter project would be included in discussions about this swap.

On Tuesday the board of Eramet, 55 per cent owned by the French state, approved the broad outlines of the government's plan "despite the significant consequences on the activity, competitiveness and therefore the employment in the nickel division".

Falconbridge said that, in order for the smelter project to proceed, SMSP needed to control the Koniambo nickel deposit owned by Eramet. The idea is that it should be exchanged for a smaller deposit, Poum, owned by SMSP and Eramet's compensation set by an independent party.

Agreement in principle was reached last month for the two deposits to be held by an independent trustee until Falconbridge either began work on the smelter or withdrew. In the latter case, Koniambo would be returned to Eramet.

Jean-Jack Queyranne, French overseas territories secretary, said yesterday that he hoped talks between the various parties would begin in Paris in the second half of January. "Political discussions over the future of New Caledonia can now start," he said.

In October Kanak activists blockaded Eramet's plants but the group said, in spite of the impact on its output, its net attributable profit for 1997 would be "appreciably higher" than the FFr305.4m ($51.15m) recorded for 1996. Eramet's shares gained 5.75 per cent yesterday to FFr230.

Eramet said production and sales in the nickel division would be greater than in 1996 and the financial result would be helped by the strength of the US dollar against the French currency. The strong dollar would also boost the results from the high speed steel division and the manganese division.

Coffee, cocoa stay subdued

MARKETS REPORT

By Vincent Boland, Kenneth Gooding and Robert Corzine

Coffee and cocoa futures prices remained weak yesterday after sharp corrections earlier in the week resulting from aggressive selling after reports of frost and stock depletions.

On the London International Financial Futures and Options Exchange, the March coffee future closed down $72 a tonne at $1,643, on volume of just over 6,900 lots.

On the New York Cotton, Sugar and Cocoa Exchange, the March future had fallen 2.10 cents a pound to 165 cents by midday.

Cocoa futures were also slightly weaker, with the Liffe March contract closing £12 down at £1,107 a tonne, while the CSCE March future was down $11 at $1,696 a tonne at noon.

Sugar futures firmed. The Liffe March future closed $1.40 a tonne higher at $305.40, due to short-covering by funds after a sharp rally in New York.

Oil prices received a modest boost from colder weather in Europe, but the rise was moderated by bearish US inventory data.

Brent Blend for February delivery, the international bellwether, was trading at about $17.61 a barrel in late trading on London's International Petroleum Exchange, up 24 cents on Tuesday's close. The January contract on the New York Mercantile Exchange was down 1 cent around midday at $18.16 a barrel.

The surprise Japanese tax cuts to help economic recovery helped to lift base and precious metals. Platinum, which fell to a 4¾-year low on Tuesday, recovered some ground to close in London up $6.50 an ounce at $348.

Gold broke out of a narrow trading range to close in London at $287.50, up $4.50 an ounce. "In spite of breaking free from $285, the long-term picture remains bearish with the market continuing to eye $280," said Michael Christian, analyst at Rudolf Wolff.

On the London Metal Exchange, the price of copper, which on Tuesday touched a four-year low of $1,740 a tonne, rose to $1,787 at one stage before easing back to $1,775, up $20, in late trading.

Study calls for free gold trade

By Kenneth Gooding

Gold is universally coveted for its prime uses as a store of value and adornment Reuters

Allowing gold to be traded without regulatory barriers would benefit many countries economically and financially, according to research commissioned by the World Gold Council, a promotional organisation financed by some gold producers.

The study says there are only two genuinely free gold markets in the world: Dubai and Hong Kong. Every other country imposes either fiscal or legal restrictions on the trade, and these limit the volume of trade and the use of gold.

It says that if gold regulations in China were reduced to the levels of those in India, which are still relatively high after some liberalisation in recent years, and if gold consumption per head was at the same level, China could collect US$500m a year in extra import duties and annual gold demand would increase by 830 tonnes. That represents nearly one third of 1996 global gold demand.

The study says governments often attempt to justify extra taxes on gold by suggesting that gold buyers are among the most advantaged members of the community so it is fair that gold and gold products should be taxed more heavily as luxury goods.

"However, because gold is universally coveted for its prime uses as a store of value and adornment, its purchase is not restricted to the rich," says the study.

"As a result, the heavy taxation of gold can be regressive [bears most heavily on the poor]. This is particularly true for developing countries which include the bulk of the world's poor and where inadequately developed banking systems and currency instability heighten the use of gold as a store of value."

Governments have failed to free up gold for three main reasons, the study suggests:

- They fear deregulation of gold will lead to or exacerbate exchange rate instability even though the gold standard and its successor, the gold exchange standard, have been long abandoned. The study asserts: "Gold transactions no longer have the potential to upset the exchange markets."
- They fear gold deregulation could lead to loss of domestic monetary control. "This, too, is an outmoded conception, since any potential magnitude of gold transactions is in all countries very small in relation to the total money supply."
- They fear deregulation will lead to an increase in illicit or underground trade in both the gold and non-gold sectors. "In fact, the evidence is that quite the opposite is the case," the study says.

The research was carried out by Bannock Consulting.

COMMODITIES NEWS DIGEST

Venezuela lifts coffee output

Venezuela has underlined its intention to become an important coffee exporter, with above-average production for a second consecutive year. Foncafé, the national coffee fund, said Venezuela produced 1.5m quintals (of 46kg each) in the season ending October 1997, against 1.6m quintals last season. The 30-year average is between 1.2m and 1.3m quintals.

Foncafé said the results were largely due to a programme it implemented with the government to renew coffee bushes and step up fumigation. Venezuela has fought off a type of fruit fly which has plagued much of Colombia's coffee production and spread into Venezuela.

Ramón Hernández, Foncafé managing director, said the results indicated that conditions were right for "Venezuela to become an important coffee export country". It exports 430,000 quintals, but with a production target of 2m quintals by 1999, its exports are set to nearly double.

Raymond Colitt, Caracas

■ COPPER

Panama mine put on hold

Tests at one of the world's biggest undeveloped copper deposits have confirmed that the site has significant workable reserves, according to a senior executive involved in the project. However, further development at Cerro Colorado, in Panama, is likely to be put on hold until the copper price improves. Cerro Colorado, in the western province of Chiriqui, is estimated to be the world's 12th largest undeveloped deposit, with reserves of more than 1bn tonnes.

Michael Shaw, project manager for owner PanaCobre, a subsidiary of Canada's Tiomin Resources, said a recent feasibility study indicated between 65m and 70m tonnes of leachable ore deposits of between 0.6 per cent and 0.7 per cent grade. A further 1bn tonnes of deposits of the same grade could be extracted using conventional flotation methods. "We have a project, but the copper price is awful," Mr Shaw said. "At a little bit higher price it is doable." Copper has recently been trading at between $1,740 and $1,750 a tonne – the lowest since January 1994.

James Wilson, Panama City

■ DIAMONDS

De Beers delays sales data

De Beers, the South African group that dominates world trade in rough diamonds, alarmed the stockbroking communities in Johannesburg and London yesterday by postponing an announcement about 1997 diamond sales from today to Monday.

Analysts suggested the sales total was easily estimated – most are looking for about $4.6bn, well below last year's record $4.834bn – but the delay might be because De Beers had bad news about the outlook for 1998. De Beers said that, although there was clearly cause for concern about the Asian markets because of financial turmoil in that region, the postponement was so that Nicky Oppenheimer and Gary Ralfe, who next month become chairman and managing director, respectively, could personally brief analysts about the figures.

Kenneth Gooding

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1506-07	1531.5-32.5
Previous	1493.5-4.5	1520-1
High/low	n/a	n/a
AM Official	1510-11	1534-35
Kerb close		n/a
Open int.	257,040	
Total daily turnover	112,865	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1370-75	1396-97
Previous	1360-70	1385-90
High/low	n/a	n/a
AM Official	1373-78	1395-96
Kerb close		n/a
Open int.	5,226	
Total daily turnover	1,936	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	527.5-28.5	538-39
Previous	533.5-4.5	544-4.5
High/low	n/a	n/a
AM Official	526.5-7	536-7
Kerb close		n/a
Open int.	32,337	
Total daily turnover	9,600	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5895-905	5995-6000
Previous	5930-40	6030-35
High/low	n/a	n/a
AM Official	5895-905	5995-6000
Kerb close		n/a
Open int	59,604	
Total daily turnover	21,370	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5450-60	5370-80
Previous	5375-85	5280-85
High/low	n/a	n/a
AM Official	5430-35	5365-70
Kerb close		n/a
Open int	15,656	
Total daily turnover	3,637	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1108-09	1132-33
Previous	1102-3	1127-8
High/low	n/a	n/a
AM Official	1104-05	1128.5-29
Kerb close		n/a
Open int	80,830	
Total daily turnover	26,931	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1739-40	1769-70
Previous	1737.5-8.5	1767-8
High/low	n/a	n/a
AM Official	1734-35	1765-65.5
Kerb close		n/a
Open int	154,008	
Total daily turnover	59,676	

■ LME AM Official £/$ rate: 1.6508
LME Closing £/$ rate: n/a

Spot 1.6521 3 mths 1.6453 6 mths 1.6384 9 mths 1.6323

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	79.10	+1.25	79.30	78.40	497	1,055
Jan	79.55	+1.30	79.70	78.70	259	3,318
Feb	80.10	+1.25	80.25	79.50	103	2,001
Mar	80.65	+1.30	80.80	79.70	4,346	34,450
Apr	81.25	+1.25	81.25	80.50	23	1,518
May	81.60	+1.20	81.70	80.90	264	4,983
Total					6,130	67,704

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	287.70-288.20		
Opening	287.60-288.00		
Morning fix	286.10	173.153	409.352
Afternoon fix	287.85	174.539	413.209
Day's High	288.50-290.00		
Day's Low	285.50-286.00		
Previous close	285.20-285.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.08 6 months 4.14
2 months ....4.09 12 months 4.14
3 months 4.12

Silver Fix	p/troy oz.	US cts equiv.
Spot	365.80	605.00
3 months	367.95	606.05
6 months	367.95	603.45
1 year	365.85	595.75

Gold Coins	$ price	£ equiv.
Krugerrand	282.5-284.5	172-173
Maple Leaf	-	-
New Sovereign	66-69	40-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	289.1	+5.7	289.7	286.3	367	275
Jan	289.8	+5.7	283.3	283.2	3	2
Feb	291.1	+5.7	291.7	285.5	32,005	101k
Apr	292.8	+5.8	293.6	287.1	1,472	11,745
Jun	294.8	+5.8	296.0	292.2	952	11,633
Aug	296.8	+5.8	296.0	296.0	10	5,262
Total					35,439	187,384

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	354.0	+13.4	355.0	342.0	3,811	9,448
Apr	353.2	+13.1	354.5	345.0	1,911	5,143
Jul	352.7	+13.1	355.0	347.0	48	253
Total					5,771	14,846

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	191.05	+6.25	191.00	187.00	51	260
Mar	188.05	+6.00	188.05	185.20	1,465	3,403
Jun	186.05	+6.00	186.00	185.00	78	238
Sep	183.05	+6.00	-	-	-	4
Total					1,518	3,905

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	592.6	+1.6	597.0	593.0	182	587
Jan	594.6	+1.6	-	-	4	29
Mar	596.8	+0.3	609.5	591.5	14,061	67,860
May	596.8	+0.3	608.0	595.0	573	6,803
Jul	596.8	+0.8	600.0	594.0	1,033	7,063
Total					16,540	94,552

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	18.24	+0.07	18.40	17.96	37,014	48,011
Feb	18.45	+0.08	18.58	18.15	30,184	105k
Apr	18.76	+0.02	18.88	18.52	5,462	25,325
May	18.90	+0.02	18.98	18.66	3,589	21,667
Jun	18.98	+0.02	19.05	18.76	3,517	34,284
Total					102,046	430,673

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	-	-	-	-	-	21,676
Feb	17.50	+0.13	17.55	17.20	16,599	83,473
Mar	17.56	-0.08	17.61	17.32	6,646	32,534
Apr	17.62	+0.06	17.67	17.40	1,239	15,774
May	17.69	+0.07	17.73	17.48	310	12,031
Jun	17.72	+0.06	17.74	17.69	210	18,169
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls, c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	51.85	+0.26	51.90	50.90	22,444	40,647
Mar	52.45	+0.24	52.55	52.00	2,686	17,338
Apr	52.10	+0.29	52.10	51.70	1,165	10,189
May	51.65	+0.34	51.75	51.30	293	8,172
Jun	51.40	+0.29	51.40	51.15	855	10,789
Total					38,825	148,633

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	160.00	-0.25	160.50	157.00	6,993	27,979
Feb	160.75	-0.50	161.50	159.50	5,158	12,894
Mar	161.50	+0.25	161.50	159.75	505	12,302
Apr	161.25	-0.25	161.50	160.25	397	4,848
May	161.50	-0.25	161.75	159.75	365	3,141
Jun	161.25	+0.25	161.50	160.00	192	11,296
Total					13,073	87,909

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	17.700	+0.100	17.700	17.700	50	4,000
Feb	17.690	-0.060	-	-	-	3,230
Total					75	745

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	2.505	+0.096	2.510	2.380	24,798	41,759
Feb	2.450	+0.081	2.460	2.330	8,822	35,852
Mar	2.360	+0.061	2.360	2.275	3,688	24,429
May	2.210	+0.018	2.215	2.190	364	9,321
Jun	2.210	+0.025	2.210	2.185	672	8,926
Total					40,957	217,308

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	55.35	-0.16	55.85	54.65	15,230	24,311
Feb	55.70	-0.04	56.15	55.10	11,709	30,993
Apr	58.70	-0.19	59.10	58.70	2,244	11,276
May	58.70	-0.01	58.85	58.55	1,656	10,207
Jun	57.90	-0.31	57.90	57.90	-	7,986
Total					35,521	111,082

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	81.70	-0.65	82.00	81.50	8	697
Mar	84.20	-0.15	84.25	83.95	41	2,834
May	86.20	-0.15	86.30	86.00	173	3,701
Jul	88.20	-0.15	88.25	88.00	10	473
Sep	81.20	-0.80	81.50	81.45	10	23
Total					337	8,543

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	332.50	+1.00	333.00	331.50	34	77
Mar	345.50	+2.50	346.75	342.25	7,636	54,907
May	353.00	+2.25	354.00	350.75	1,027	11,877
Jul	358.75	+2.00	359.50	356.50	1,826	18,857
Sep	364.00	+1.25	363.00	363.00	12	461
Dec	373.25	+2.25	373.25	371.00	417	2,613
Total					10,944	88,838

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	261.00	+1.75	261.50	260.00	2,331	4,079
Mar	272.50	+1.50	273.50	270.75	33,248	175,644
May	280.00	+1.50	280.50	278.50	2,637	45,825
Jul	285.75	+1.75	286.00	284.50	3,520	56,827
Sep	282.25	+2.50	282.75	281.00	290	5,708
Dec	284.00	+2.75	284.25	282.00	1,821	33,148
Total					43,887	323,337

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	75.00	-0.50	75.00	75.00	3	250
Mar	77.80	-0.50	-	-	-	1,429
May	78.75	-0.50	-	-	-	20
Sep	78.15	-0.75	-	-	-	6
Nov	80.15	-0.75	80.50	80.15	59	75
Total					62	1,780

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	689.50	+3.50	691.00	684.00	21,262	55,409
Mar	690.75	+4.25	691.50	685.50	9,907	38,143
May	695.75	+4.25	696.00	689.50	2,516	24,146
Jul	702.00	+6.50	702.00	697.00	2,764	25,652
Aug	701.00	+8.00	702.00	697.00	298	3,427
Sep	682.00	+5.00	681.50	677.00	48	225
Total					37,263	157,037

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	24.80	+0.27	24.65	24.53	322	499
Jan	24.95	+0.26	24.95	24.70	7,692	34,370
Mar	25.29	+0.23	25.32	25.02	5,752	39,021
May	25.51	+0.24	25.48	25.30	1,428	14,691
Jul	25.62	+0.22	25.60	25.45	791	12,006
Aug	25.55	+0.25	25.53	25.41	282	3,339
Total					16,445	106,730

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	215.7	-0.4	216.5	215.0	3,832	4,247
Jan	211.0	+0.3	212.0	210.1	9,367	28,045
Mar	208.6	+0.9	209.2	207.5	7,623	34,315
May	207.7	+1.4	207.8	206.3	3,530	22,525
Jul	209.3	+1.7	209.2	207.5	1,188	15,922
Aug	209.5	+1.9	209.5	207.7	721	4,557
Total					26,486	117,136

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	91.0	-	-	-	-	-
Apr	115.0	+2.0	116.0	113.0	36	1,056
May	125.0	+2.0	-	-	-	42
Jun	135.0	+2.0	-	-	-	-
Nov	56.0	+1.0	-	-	-	-
Total					45	1,143

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1272	+2	1272	1272	5	183
Jan	1175	-25	1185	1175	43	724
Feb	1163	-17	-	-	-	181
Apr	1280	-10	1275	1275	5	431
Jul	1170	-	-	-	-	120
Total					53	1,694

	Close	Prev
BFI	1276	1266

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	480.25	+0.25	480.25	480.00	10	376
Jul	500.00	-2.00	500.00	500.00	1	245
Total					18	812

FUTURES DATA
All futures data supplied by CMS.

Minor metals from Metal Bulletin
European free market, $ per lb in warehouse (changes in brackets). Antimony: 99.65%, $ per tonne, 1,650-1,630 (1,590-1,680). Bismuth: min. 99.99%, tonne lots 3.20-3.35. Cadmium: min. 99.95%, cents a pound, 35.00-40.00 (30.00-40.00). Cobalt: MB free market, min. 99.8%, 25.25-26.00 (25.25-26.25); min. 99.3%, 18.80-19.30 (19.10-19.60). Mercury: min. 99.99%, $ per 76 lb flask, 140-150. Molybdenum: drummed molybdic oxide, 3.80-3.95. Selenium: min 99.5%, 2.00-3.00. Tungsten ore: standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-52. Vanadium: min. 98%, CIF, 4.65-4.85 (4.35-4.50).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1080	-12	-	-	-	794
Mar	1107	-12	1119	1100	3,591	71,337
May	1126	-12	1132	1119	703	24,934
Jul	1145	-12	1149	1139	233	11,696
Dec	1181	-8	1184	1173	1,591	23,870
Total					11,827	183,813

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1693	-14	1710	1685	11,880	44,665
May	1720	-14	1735	1713	2,791	20,526
Jul	1740	-14	1749	1734	207	4,744
Sep	1759	-14	1782	1762	175	5,895
Dec	1780	-14	1823	1802	470	9,403
Mar	1800	-14	1870	1844	16	9,912
Total					45,549	98,236

■ COCOA (ICCO) (SDR's/tonne)

Dec 16	Price	Prev. day
Daily	1322.97	1380.21

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1658	-65	1700	1635	3,362	10,121
Mar	1643	-72	1690	1620	6,980	26,212
May	1638	-65	1670	1615	637	7,110
Jul	1633	-60	1660	1620	110	1,378
Sep	1633	-60	-	-	-	619
Nov	1638	-60	-	-	-	30
Total					11,198	46,470

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	164.25	-3.75	168.00	161.50	149	266
Mar	160.65	-6.25	167.25	160.50	11,574	19,179
May	155.70	-6.00	162.00	155.50	1,025	5,620
Jul	150.05	-4.90	155.50	150.50	408	2,802
Sep	143.90	-4.30	147.50	144.25	321	1,274
Dec	139.90	-2.80	143.00	140.00	73	1,200
Total					13,830	30,644

■ COFFEE (ICO) (US cents/pound)

Dec 16		Prev. day
Comp. daily	129.24	139.02
15 day average	130.44	129.81

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	306.2	+3.7	306.5	300.7	2,497	22,544
May	311.3	+3.0	310.0	307.0	233	7,125
Aug	313.1	+2.1	312.5	310.0	68	4,866
Oct	307.4	+2.0	305.4	304.5	356	4,307
Dec	308.5	+0.7	308.0	307.5	10	153
Total					3,246	39,215

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	12.18	+0.23	12.22	11.86	36,594	100k
May	12.00	+0.12	12.09	11.81	5,868	35,085
Jul	11.84	+0.09	11.67	11.51	2,522	29,189
Oct	11.55	+0.04	11.60	11.44	2,306	25,598
Mar	11.40	+0.04	11.45	11.34	712	7,157
May	11.34	+0.04	11.31	11.30	295	1,086
Total					48,335	199,424

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	67.19	+1.07	67.20	66.42	8,562	43,805
May	68.39	+0.96	68.40	67.71	2,223	15,322
Jul	69.63	+0.83	69.70	69.05	1,121	15,170
Oct	71.45	+0.65	71.50	71.00	70	1,361
Dec	72.18	+0.43	72.30	71.90	1,494	12,338
Mar	73.35	-	73.35	73.35	82	384
Total					11,576	88,818

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	86.80	-1.85	88.50	84.00	4,791	17,017
Mar	90.25	-1.65	91.70	87.50	3,423	20,449
May	93.80	-1.55	94.60	90.60	515	4,689
Jul	96.85	-1.45	98.00	94.80	549	3,057
Sep	99.95	-1.60	95.00	95.00	220	1,312
Nov	102.45	-1.10	105.00	105.00	205	1,681
Total					9,731	48,921

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 17	Dec 16	month ago	year ago
1780.6	1785.0	1816.4	1863.1

■ CRB Futures (Base: 1967 = 100)

Dec 16	Dec 15	month ago	year ago
233.03	235.86	-	-

■ GSCI Spot (Base: 1970 = 100)

Dec 16	Dec 15	month ago	year ago
n/a	179.81	199.63	227.66

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,950	to	632,525
Aluminium alloy	+560	to	42,180
Copper	-3,725	to	329,650
Lead	-225	to	113,475
Nickel	-8	to	66,342
Zinc	+175	to	480,725
Tin	+370	to	11,485

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	67.250	+1.075	67.275	66.000	1,547	5,826
Feb	66.850	+0.525	66.800	65.900	8,508	49,726
Apr	69.625	+0.500	69.750	69.000	3,941	25,057
Jun	69.025	+0.550	69.125	68.450	1,745	15,720
Aug	69.875	+0.275	70.100	69.800	646	5,634
Oct	72.300	+0.125	72.425	72.200	107	1,484
Total					16,551	103,432

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	60.025	-0.375	60.300	59.850	3,096	20,899
Apr	57.250	-0.500	57.500	57.000	1,020	8,327
Jun	64.900	-0.425	65.250	64.725	803	4,865
Jul	63.900	-0.150	64.150	63.850	130	1,443
Aug	61.625	-0.350	61.800	61.600	44	264
Oct	57.700	-0.250	57.850	57.700	56	602
Total					5,214	40,180

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	55.825	-1.275	56.750	55.700	1,072	6,004
Mar	55.300	-1.025	55.900	55.250	165	1,277
May	56.300	-1.650	57.000	56.250	12	1,016
Jul	54.850	-1.700	56.000	54.850	11	574
Aug	51.025	-1.050	52.100	51.025	15	90
Total					1,266	8,968

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1400	141	169	4	15
1500	64	99	26	43
1600	20	51	86	92
■ COPPER (Grade A) LME	**Jan**	**Apr**	**Jan**	**Apr**
1700	98	138	27	45
1800	44	83	73	88
1900	16	46	143	149
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1750	-	52	92	159
1800	-	43	142	200
1850	-	34	192	241
■ COCOA LIFFE	**Mar**	**May**	**Mar**	**May**
1100	49	73	42	47
1125	39	60	57	59
1150	30	51	73	
■ BRENT CRUDE IPE	**Feb**	**Mar**	**Feb**	**Mar**
1700	69	-	34	-
1750	-	-	-	-
1800	23	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$15.95-6.05	-0.060
Brent Blend (dated)	$16.96-7.00	+0.120
Brent Blend (Feb)	$17.54-7.56	+0.085
W.T.I.	$18.45-8.47	+0.080
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$179-181	-2
Gas Oil	$160-162	+1
Heavy Fuel Oil	$78-80	
Naphtha	$169-170	-0.5
Jet fuel	$182-184	-0.5
Diesel	$169-171	
■ NATURAL GAS (Pence/therm)		
Bacton (Jan)	17.65-17.75	+0.10
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)♣	$287.95	+2.50
Silver (per troy oz)♣	595.00c	-1.00
Platinum (per troy oz.)	$347.50	+5.00
Palladium (per troy oz.)	$187.75	-0.25
Copper	83.0c	-3.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	20.30r	
Tin (New York)	258.5	+3.0
Cattle (live weight)	89.83p	-6.62*
Sheep (live weight)	84.36p	-10.43*
Pigs (live weight)†	69.91p	+3.72*
Lon. day sugar (raw)	$288.60	-4.40
Lon. day sugar (wte)	$297.00	-1.70
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Dec)♥	54.50p	
Rubber (Jan)♥	54.50p	
Rubber (KL RSS No1)	270.0z	
Coconut Oil (Phil)§	602.5y	
Palm Oil (Malay.)§	535.0	+7.5
Copra (Phil)§	$385.0	-2.5
Soyabeans (US)	188.0	
Cotton Outlook'A' Index	74.80c	
Wooltops (64s Super)	392p	

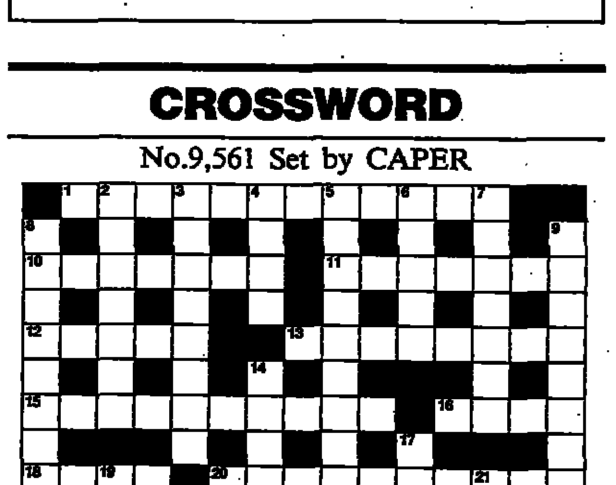
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. w Jan. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 929 head of pigs sold.

JOTTER PAD

CHRISTMAS PRIZE CROSSWORDS
Win Pelikan pens by solving The FT Christmas Crossword by Cinephile on Saturday and a double puzzle by Dinmutz on Saturday December 27.
Davys champagne and wine and food vouchers are prizes for the Monday puzzles on December 22 and 29.

CROSSWORD

No.9,561 Set by CAPER



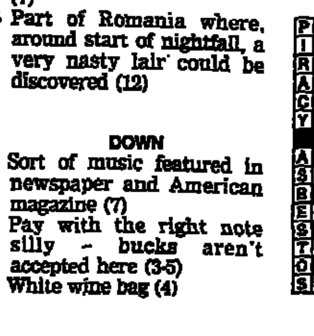
ACROSS

1 Ravel creates short scores (12)
10 Newspaper starts to influence campaign for non-chemical production (7)
11 Chief dislike? Possibly dog on heat, frisky (3,4)
12 Girl's fool joining motoring organisation (5)
13 Wrote bad things about beautiful girl in a common hat (8)
15 Jaw – what does one do with low grade meat? (4,3,3)
16 Primarily seedy person, insincere villain (4)
18 Map 80% of surface (4)
20 Old car – doctor breaks one outside hospital (10)
22 The first animal to be entered in a dictionary (8)
24 Damn dog's energy (5)
26 Small amounts of puddings (7)
27 Very hot – run out to local (7)
28 Part of Romania where, around start of nightfall, a very nasty lair could be discovered (12)

DOWN

2 Sort of music featured in newspaper and American magazine (7)
3 Pay with the right note silly – bucks aren't accepted here (3-5)
4 White wine bag (4)
5 Copies responses about new act (10)
6 Name – some spelt it backwards (5)
7 Unfortunately run slap into traffic jam (5-2)
8 Potential narcotics made by factories after explorer returned with company (7,6)
9 Boss superior to rogues – absolutely (4,4,5)
14 Very comfortable place – food, beers, dancing, then start to sleep (3,2,5)
17 After 100, English batsman has exercise, taking a pulse (8)
19 If trail becomes vague, take out by chopper, perhaps (7)
21 City King takes a car back to – hot one (7)
23 Dwelling – very bad one? Quite the opposite (5)
25 Dead upset – and other things (2,2)

Solution 9,560



هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

BT Fund Managers (Ireland) Ltd (u)

[illegible]

Lazard Investment Funds Ltd - Contd.

Morgan Grenfell Investment Funds Ltd (n)

[illegible]

Scottish Value Management (Ireland) Ltd (u)

St Stephen's Green, Dublin 2

UK Growth	£2.98	3.09	—	-
European Growth	£3.58	3.76	—	-
Broker Value	£1.4368		—	-
Relative Value H	£1.0945		—	-

BT&T Asset Management (Ireland) Ltd

BZW Secured Equity Fund II Plc

Bank of Ireland Unit Managers Ltd

[illegible]

Dragon Korea Fund Plc

NAV	$1.195	—	-

Dresdner Kleinwort Benson Int Mgt Srv

Al Manzam Commodity Fund Plc

NAV Dec 15	$100.83	—	-

Singer & Friedlander Inv Funds Ltd (u)

21 New Street, Bishopsgate, EC2M 4HR 0171-626 8226

[illegible]

Eagle Star European Life Assurance Co Ltd

Edgehill Select Group

Amerivalue	$11.15	—	-
	$11.61	—	-
Contrary	$14.08	—	-
	$14.51	—	-
The Wall Street Tst	$11.28	—	-

Egerton Capital European Fund Plc

NAV Dec 11	£23.13	—	-

[illegible]

IRELAND (REGULATED)(**)

[illegible]

IIVESTORS Fund Services (Ireland) Ltd

Kim Europe Worldwide Fund

Kim Far East Fund Plc

Kim Korea Fund Plc

Korea Active

Korea Balanced Return Fund

Korea Bond Fund Plc

[illegible]

ISLE OF MAN (FSA RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1000)F

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mangmt (IOM) Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

AIB Govett Management (Jersey) Limited

Bank of Scotland Fund Managers (Jersey) Ltd

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Init Charge	Notes	Selling Price	Buying Price	+ or -	Yield Gr's
Bank Von Ernst & Cie AG						
Marktgasse 63/65, 3001 Bern, Switzerland 0041 313297111						
UK Equity			£18.52		+0.24	-
UK Smaller Co's Eqty			£27.47		-0.03	-
Nth American Equity			$17.59		+0.18	-
US Smaller Co's Eqty			$25.51		+0.28	-
Pacific Basin Equity			$10.72		+0.18	-
Japanese Equity			[illegible]		[illegible]	-
European Equity			[illegible]		+0.28	-
Swiss Equity			[illegible]		+0.29	-
Sterling Fixed Int			£16.10		+0.01	-
Sterling Fixed Int Div			£10.33			-
European Fixed Int			[illegible]		-0.09	-
European Fixed Int Div			[illegible]		-0.01	-
DM Bond Cap			[illegible]			-
DM Short Term Cap			[illegible]			-
Global Equity			$15.72		+0.16	-
Global Bond			$13.76		-0.01	-
Global Bond Div			$9.34		-0.01	-
Global Managed			[illegible]		+0.15	-
Swiss Franc Short Term Div			[illegible]			-
Swiss Franc Short Term Cap			[illegible]		+0.01	-
Swiss Franc Bonds Div			[illegible]			-
Swiss Franc Bonds Cap			[illegible]			-
Banque Indosuez						
39 Allee Scheffer, L-2520 Luxembourg 00352 47671						
Indosuez European Small Cos			DM14.59			-
Indosuez Multimedia			$17.87			-

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

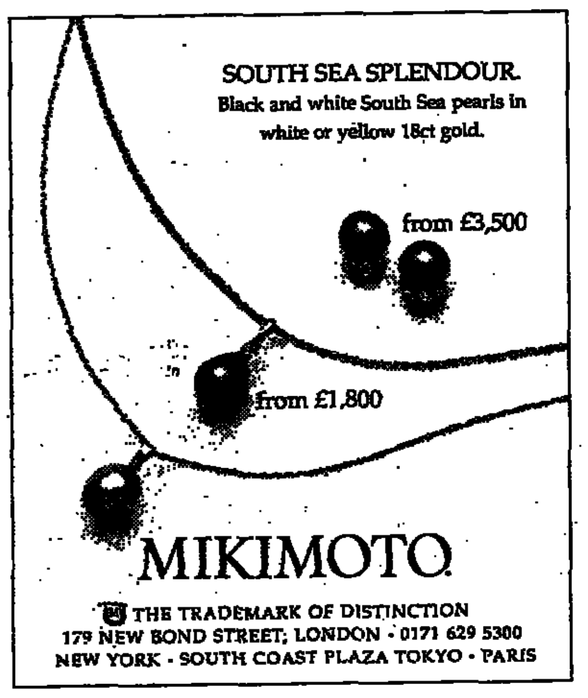
FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Global Portfolio (BVI) Management Ltd				
Hydra	$12556.90	—	—	—
Fonds 1 Fd Ltd Sep 30	Y1132011	—	—	—
Fonds Directional Currency	$9804	—	—	—
Fonds Europe US$	$28717	—	—	—
Fonds Europe DM	DM452.33451	—	—	—
Globalvest Management Co LP				
Latinvest Dec 1	$59.3	—	—	—
Brazvest Dec 1	$37.87	—	—	—
Goldman Sachs				
GS Global Currency Oct 31	$1731.84	—	—	—
GS Global Currency SF Oct 31	SFr1274.24	—	—	—

	Selling Price	Buying Price	+ or -	Yield Gross
Jupiter Asset Management (Asia) Ltd				
Hong Kong Investment Co Ltd	$0.73		-0.04	—
Philippine Investment Co Ltd	$0.53		-0.01	—
Jupiter Asset Mngt (Bermuda) Ltd				
Jupiter Hedge	£1.49	1.57	-0.11	—
Jupiter Tyndall Specialist Fund Ltd				
Brazil Class	$1.25	1.32	-0.13	—
Mexico Class	$1.38	1.46	-0.05	—
KD Offshore Fund, C.V.				



	Selling Price	Buying Price	+ or -	Yield Gross
Griffin Capital Management				
Eastern European Value		—		—
Group One International Tst				
GAMMA UCITS Series 1	$195.80		-0.06	—
GAMMA UCITS Series 2	$420.84		-0.15	—
GAMMA UCITS Series 3	$757.58		-0.63	—
GAMMA UCITS Series 4	$784.14		-0.24	—

	Selling Price	Buying Price	+ or -	Yield Gross
Kenmar Management Limited				
Alternative Inv Strat	$25.000	—	—	—
Kenmar Global Investments Ltd				
Columbus Growth Nov 30	$22.8	—	—	—

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£23¼	—	£27½	£21⅝	–	3.0	♦
Bellow	♣	£5¾	+⅛	£8¾	£5⅝	–	2.9	♦
Gold Flds Prop R		122	–1	167	119	–	6.7	10.0
SA Brews	†	£15⅝xd	+⅛	£23⅜	£13¾	–	2.4	–
Standard Bank		£24¾	+⅛	238	£21⅞	–	2.1	–
Tiger Oats		820xd		1100	780	–	2.3	♦
Tongaat-Hulett		749xd	–5¼	780	719½	–	2.4	♦

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		£32180xd	+1800	£32100	£472	0.010	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves marked † in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98.
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ . Please quote the code FT8633. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 10-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.85.
To order, call 0121 200 4678.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.
Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Buyers' enthusiasm fades to leave shares down

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The three-day rally that saw the FTSE 100 index race up 167 points, or 3.3 per cent, continued briefly yesterday, before grinding to halt in mid morning.

Thereafter, pockets of profit-taking and a lack of enthusiasm saw stock prices slip back to finish the session modestly lower.

"The market simply ran out of gas, ironically on a day when all the signals from overseas were positive and when the economic news provided no real inflationary worries," said one dealer.

He insisted, however, that London faced no serious problems in the near future, unless the far eastern markets turned tail again. "On the contrary, there is still a bullish feeling in London, as long as the buy-back and bid stories continue," he said.

However, there was further concern about job losses around the City's trading desks highlighted by reports that Douglas Baker, head of marketmaking at HSBC James Capel, had resigned yesterday.

Footsie ended an erratic trading day 12.6 points lower at 5,199.8. At its best shortly after the opening bell, the index hit a session peak of 5,247.6, up 44.2.

The FTSE 250, which had looked comfortable for much of the day, finished 0.7 off at 4,756.3. The FTSE SmallCap was more robust and nudged up 1.7 to regain the 2,300 level, finishing at 2,300.5.

Wall Street had finished Tuesday in good heart, albeit well below the session-high, as the US Federal Reserve left interest rates on hold. The Dow Jones Industrial Average moved erratically yesterday, after a strong rise in early trading.

The news from the far east was extremely positive after the Japanese government's rescue package was well received in the Tokyo stock market. The Nikkei 225 average fizzed up 3.5 per cent, as did Hong Kong and the Seoul market.

The UK unemployment report was broadly in line with expectations but there was more disturbing evidence that the high street retailers were not having anything like a good time in the crucial pre-Christmas trading period. November sales showed a 0.4 per cent dip.

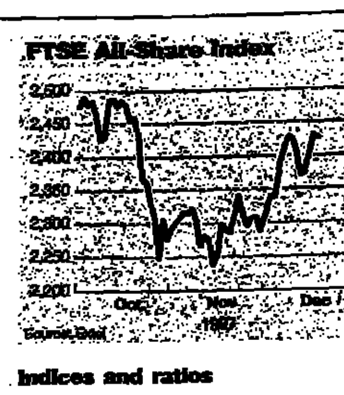
The official data tied in with anecdotal evidence and the recent British Retail Consortium survey that pointed to a slowing in sales.

Retailing gloom was exacerbated by profits warnings from Oasis Group, the high street fashion retailing chain, and Mulberry, the luxury-goods manufacturer. Those warnings, plus another from Coats Viyella, the textiles group, provided most of the bad news in the market.

Some of the recent froth that has driven the banks and insurances sharply higher over recent months, was blown away in the absence of any hard takeover news. The former building societies, which attracted big interest from the institutions on demutualisation, were given a rough ride in the market yesterday.

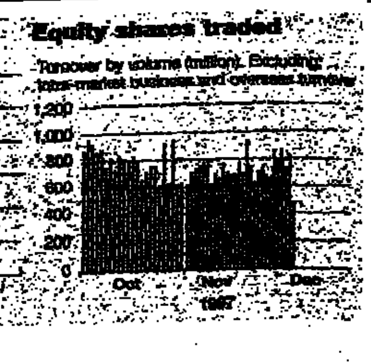
Turnover was an encouraging 870.6 shares at 6pm, split evenly between FTSE 100 and other stocks.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	5190.8	−12.6
FTSE 250	4756.3	−0.7
FTSE 350	2488.2	−4.9
FTSE All-Share	2427.06	−4.46
FTSE All-Share yield	3.21	3.14
FT 30	3285.90	−27.1
FTSE Non-Fins p/e	20.11	20.17
FTSE100 Fut Dec	5208.0	−10.0
10 yr Gilt yield	6.40	6.36
Long gilt/equity yld ratio	2.00	2.04

Best performing sectors

1 Breweries: Pubs & Rest .... +2.3
2 Life Assurance .... +1.5
3 Diversified Inds .... +1.2
4 Electronic & Elect .... +1.1
5 Health Care .... +1.1

Worst performing sectors

1 Textiles & Apparel .... −4.0
2 Retailers: Food .... −2.1
3 Oil Exploration & Prod .... −1.9
4 Gas Distribution .... −1.6
5 Insurance .... −1.6

Gloom among stores

By Joel Kibazo, Peter John and Martin Brice

Dark clouds reamined over the retail sector as two profit warnings served to confirm a poor pre-Christmas trading season.

Fashion retailer Oasis Stores warned that profits for the year to January 1998 are expected to be below current market expectations. Analysts had been forecasting profits of between £15.8 and £17m. Mulberry Group, the designer and manufacturer, also warned of current-year profits falling short of predictions.

The ready-to-wear clothing and interior design products group said: "Early indications based on wholesale stocking and early Christmas retailing are that Christmas sales will be lacklustre."

The statements from both groups sent their shares into retreat. Oasis tumbled 56 or 30.1 per cent to 130p, while Mulberry crashed 20 or 27.21 per cent to 53½p.

The warnings only served to add to the gloom that has been overhanging the stores sector since signs of poor Christmas season trading emerged at the end of last month. The bad news started with reports that House of Fraser was launching a pre-Christmas sale and were followed by a gloomy report on the sector from the British Retail Consortium.

Yesterday SocGen moved to downgrade profit expectations at house stock Oasis and several other leading issues in the sector. The broker cut its current-year estimates for Oasis to between £10m and £12m from a previous estimate of £15.6m.

Turning to the rest of the sector, Marks and Spencer is now expected to report profits £20m less at £1.140bn while profit forecasts at Next were reduced by £10m to £175m. Analyst Nick Bubb at SocGen said simply: "Christmas is turning out to be very disappointing."

Shares in M&S gave up 20 to 600p, while HOF was also down, closing 3 lighter at 217½p. However, bargain-hunting in Next helped the shares end the day 3 ahead at 687½p.

Coats Viyella must be praying for the decade to end. Over a period during which the overall UK market doubled and the Footsie rose 140 per cent, the UK's biggest textiles group has fallen more than 30 per cent.

Yesterday, the shares tumbled 15½ to 95p – easily the worst performance among the UK's top 350 stocks – as a profits warning prompted swingeing broker downgrades.

Dealers said BZW, the company's broker, had more than halved its current-year profit forecast. BZW was already at the low end of range of forecasts but came down from £75m to £30m as it factored in a surprise exceptional hit and a warning of a fall-off in trading.

More significantly, BZW is believed to have taken its 1998 dividend forecast down to 4.4p. That compares with an 8.8p total dividend last year and will be a blow to income-seeking funds.

The slide represents only the latest in a series of knocks that have taken the shares down from a high of 284p four years ago. Only three months ago analysts cut full-year profit forecasts from about £140m to £90m-£100m, after the company announced a 12 per cent dip in the first-half figure.

Nycomed Amersham, formed in October with the merger of Amersham International and Nycomed, celebrated its first day of trading in the Footsie with a rise of 80 to £23.50.

The healthcare group came into the main index after a place was created by the merger of Guinness and GrandMet. The cachet of Footsie status tends to attract extra investor interest, particularly from overseas.

Also, Salomon initiated coverage of the stock with an "outperform" rating.

Racal achieved one of the better performances in the FTSE 250, helped by a strong "buy" note from Henderson Crosthwaite and sustained buying by directors. The stock gained 6½ to 250p in volume of 1.2m.

An announcement to the stock exchange showed that Sir Ernest Harrison had bought 545,000 shares last week, while four other directors had bought a total of 55,000 shares at 232p.

Henderson Crosthwaite told clients the shares were currently trading at a 25 per cent discount to a break-up value of more than 320p.

Brian Newman at the broker said: "At 250p a share, Racal is capitalised at £700m.

If Racal Telecom is worth £425m, or 150p a share, the remaining electronic interests are trading at less than 9 times prospective earnings."

Zeneca raced ahead 49 to £20.77 as some reassuring fundamental news bolstered the enthusiasm engendered by Lehman Brothers' big upgrade earlier in the week.

Zeneca announced the $500m purchase of a Japanese-owned agrochemicals business, Ishihara Sangyo Kaisha's US fungal control arm.

Analysts said the deal was not huge but strategically sensible, and not expensive at two times sales and about 18 times earnings.

Merrill Lynch announced its top UK tips for 1998 and focused heavily on banking, in spite of this sector's strong outperformance over the past 12 months.

Merrill selected Abbey National, which is widely seen as a consolidation candidate, but which fell 44 to £11.03 after strong rises this week. The broker also highlighted Lloyds TSB, which has soared above its sector rivals since its merger with TSB and which yesterday added 13 at 789p. Merrill also recommended, British Aerospace, Ladbroke, Railtrack and Imperial Tobacco.

Guardian Royal Exchange shed 10 to 324p. The insurer said it was buying PPP Healthcare for £435m. Annual cost savings would be £14m and the acquisition is expected to be earnings-enhancing in 1999.

British-Borneo, the oil exploration and production company, dropped 18 to 418½p after it was announced that reserves at two of its fields in the North Sea had been downgraded.

However, some analysts said the fall was overdone as the downgrade should reduce net asset value by no more than 4p a share.

Diageo, the food and drinks group created from the merger between Guinness and Grand Metropolitan, had a lacklustre opening with the shares closing 1½ off at 590p. SGST were reported to be firm buyers of the stock.

Cookson Group gained 7 to 196½p in spite of the loss of Richard Oster, its chairman. Robert Malpas, who was chairman until September, has agreed to resume the position until a successor is appointed.

Danka Business Systems continued to suffer following its profits warning on Tuesday, and surrendered 3 to 214½p.

FT 30 INDEX

	Dec 17	Dec 16	Dec 15	Dec 12	Dec 11	Yr ago	*High	*Low
FT 30	3285.9	3313.0	3272.2	3235.6	3228.9	2762.8	3430.3	2668.8
Ord. div. yield	3.42	3.41	3.46	3.50	3.51	4.17	4.22	3.29
P/E ratio net	21.19	21.57	21.23	20.98	20.95	17.07	22.33	15.80
P/E ratio nil	20.80	21.28	20.94	20.70	20.66	16.90	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3312.9	3311.0	3310.5	3305.1	3295.5	3293.3	3295.9	3295.9	3285.9	3324.7	3281.8

	Dec 17	Dec 16	Dec 15	Dec 12	Dec 11	Yr ago
SEAQ bargains	53,234	53,234	49,128	43,350	46,511	32,261
Equity turnover (£m)†	-	NA	NA	1603.1	2931.5	1193.1
Equity bargains†	-	NA	NA	32,609	40,056	21,109
Shares traded (mil)†	-	NA	NA	481.7	823.4	393.4

†Excluding intra-market and overseas turnover but including Crest turnover.
© FTSE International Limited 1997. All rights reserved. *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	827	Total Highs	96	Total contracts	40,210
Total Falls	744	Total Lows	92	Calls	22,210
Same	1,475			Puts	18,000

Dec 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5235.0	5208.0	-10.0	5265.0	5182.0	16299	28436
Mar	5265.0	5259.5	-9.5	5315.0	5238.0	11602	41872
Jun	5306.0	5321.0	+15.0	5306.0	5306.0	30	0

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5188) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

	Dec 16	% chg on day	Dec 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index †(33)	963.18	−0.1	964.04	1641.38	2.90	-	1607.49	963.02
■ Regional Indices								
Africa (15)	961.85	+0.1	960.93	2137.62	7.26	17.14	2333.56	921.78
Australasia (6)	933.63	−0.3	936.53	2092.73	3.86	12.27	2217.60	933.63
North America (12)	964.69	−0.1	965.87	1728.02	1.34	35.87	1780.66	894.94

Copyright, FTSE International Limited 1997. All rights reserved. Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Market closed 16/12/97: South Africa.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 17	Day's chge%	Dec 16	Dec 15	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5190.8	−0.2	5203.4	5121.8	4018.2	3.13	2.59	2.07	19.26	142.08	2239.55
FTSE 250	4756.3	—	4757.0	4763.0	4380.5	3.54	2.92	1.81	19.54	148.19	2013.28
FTSE 250 ex IT	4786.7	−0.1	4790.6	4803.1	4423.4	3.66	3.03	1.85	18.48	154.26	2033.32
FTSE 350	2488.2	−0.2	2493.1	2462.0	1994.0	3.21	2.65	2.02	19.31	69.90	2193.74
FTSE 350 ex IT	2492.2	−0.2	2497.6	2466.3	-	3.23	2.67	2.03	19.10	37.94	1126.95
FTSE 350 Higher Yield	2491.8	−0.1	2493.1	2459.1	1909.0	4.11	3.43	1.84	16.50	87.41	1870.00
FTSE 350 Lower Yield	2499.6	−0.3	2507.6	2479.0	2095.4	2.43	1.98	2.27	22.65	53.10	1796.66
FTSE SmallCap	2300.46	+0.1	2298.81	2289.93	2140.56	3.22	2.60	1.56	24.83	64.37	1976.73
FTSE SmallCap ex IT	2297.87	−0.1	2299.98	2304.70	2144.57	3.44	2.77	1.63	22.39	68.33	1993.42
FTSE All-Share	2427.06	−0.2	2431.52	2403.11	1965.31	3.21	2.65	1.98	19.58	68.15	2171.82
FTSE All-Share ex IT	2433.11	−0.2	2436.23	2409.59	-	3.24	2.67	2.01	19.25	37.39	1120.01

■ FTSE Actuaries Industry Sectors

	Dec 17	Day's chge%	Dec 16	Dec 15	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4603.85	−0.2	4612.07	4558.41	3828.90	3.40	2.79	1.81	20.33	140.69	2084.24
12 Extractive Industries(5)	2979.64	+0.5	2965.58	2978.77	3992.27	4.74	4.18	1.88	14.03	139.64	918.40
15 Oil, Integrated(3)	5098.98	−0.1	5103.18	5037.04	3946.04	3.41	2.76	1.77	20.68	154.87	2375.88
16 Oil Exploration & Prod(12)	3611.10	−1.9	3679.69	3610.77	3061.94	1.59	1.31	2.32	33.87	52.82	2221.18
20 GEN INDUSTRIALS(254)	1993.04	−0.1	1994.62	1990.34	1961.17	3.91	3.33	1.98	16.11	69.66	1154.55
21 Building & Construction(35)	1283.60	+0.5	1276.67	1275.65	1174.71	3.62	2.91	2.35	14.71	42.45	1130.68
[illegible]											

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 17 / Sch)

BELGIUM/LUXEMBOURG (Dec 17 / Frs.)

CZECH REP (Dec 17 / Koruna)

DENMARK (Dec 17 / Kr)

FINLAND (Dec 17 / Mkt)

FRANCE (Dec 17 / Frs.)

GERMANY (Dec 17 / Dm.)

GREECE (Dec 17 / Drachma)

ITALY (Dec 17 / Lire)

NETHERLANDS (Dec 17 / Fls.)

NORWAY (Dec 17 / Kroner)

POLAND (Dec 17 / Zloty)

PORTUGAL (Dec 17 / Escudo)

SPAIN (Dec 17 / Pts.)

SWEDEN (Dec 17 / Kronor)

SWITZERLAND (Dec 17 / Frs.)

TURKEY (Dec 17 / TK Lira)

PACIFIC

JAPAN (Dec 17 / Yen)

AUSTRALIA (Dec 17 / Aus$)

HONG KONG (Dec 17 / H.K.$)

INDONESIA (Dec 17 / Rupiah)

MALAYSIA (Dec 17 / MYR)

NEW ZEALAND (Dec 17 / NZ $)

SINGAPORE (Dec 17 / S$)

SOUTH KOREA (Dec 17 / Won)

TAIWAN (Dec 17 / TW $)

THAILAND (Dec 17 / Baht)

AFRICA

SOUTH AFRICA (Dec 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Dec 17 / Can $)

4 pm close

MONTREAL (Dec 17 / Can $)

4 pm close

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 16 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 15 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (74)	191.22	-0.1	173.56	158.16	177.42	195.56	0.8	3.88	191.48	173.85	158.31	176.22	194.00	243.87	190.41	212.86
Austria (23)	184.41	-1.3	167.37	152.52	171.09	170.96	-0.5	1.94	186.76	169.57	154.40	171.88	171.75	213.59	175.14	186.44
Belgium (27)	256.27	1.7	232.60	211.96	237.77	232.74	1.7	2.96	252.09	228.88	208.41	232.00	228.90	261.11	221.98	221.93
Brazil (30)	227.51	1.9	206.49	188.17	211.06	465.96	1.9	1.90	223.18	202.63	184.51	205.39	457.06	322.44	178.96	178.98
Canada (122)	210.48	-0.3	191.04	174.08	195.28	216.84	-0.1	1.82	211.16	191.72	174.58	194.33	217.08	233.66	178.27	183.29
Denmark (32)	437.35	0.4	396.95	361.72	405.76	404.60	1.3	1.27	435.42	395.33	359.98	400.72	398.39	437.47	335.44	337.61
Finland (28)	271.67	0.7	246.58	224.70	252.05	307.01	1.4	2.05	269.93	245.08	223.16	248.42	302.70	349.43	232.86	235.64
France (94)	233.79	1.3	212.20	193.37	216.91	219.19	2.1	2.43	230.76	209.51	190.77	212.36	214.56	246.23	203.73	204.98
Germany (58)	223.47	-0.3	202.83	184.83	207.34	207.34	0.5	1.42	224.09	203.46	185.26	206.23	206.23	243.87	183.03	186.41
Hong Kong, China (66)	343.11	-1.4	311.42	283.78	318.33	341.37	-1.4	4.68	347.80	315.78	287.54	320.08	346.04	580.03	314.78	492.22
Indonesia (27)	57.59	10.7	52.27	47.63	53.43	197.83	6.9	3.40	52.01	47.22	43.00	47.87	185.06	254.90	52.01	221.80
Ireland (16)	396.33	-0.9	359.72	327.80	367.71	385.44	-0.6	2.56	400.02	363.19	330.71	368.14	387.90	409.57	311.74	311.74
Italy (53)	113.92	1.7	103.40	94.22	105.69	148.84	2.5	1.84	112.01	101.70	92.60	103.08	145.15	115.27	80.61	80.61
Japan (482)	96.20	0.3	87.31	79.56	89.25	79.56	0.4	1.00	95.89	87.06	79.28	88.25	79.28	141.12	95.89	134.54
Malaysia (107)	157.13	-3.8	142.62	129.96	145.78	234.07	-3.4	3.10	163.34	148.30	135.04	150.32	242.19	660.85	157.13	584.23
Mexico (27)	1736.88	2.2	1576.45	1436.55	1611.45	15365.64	1.7	1.56	1699.25	1542.81	1404.84	1563.63	15113.81	1901.96	1147.96	1147.96
Netherlands (19)	411.58	1.4	373.56	340.41	381.86	377.82	2.2	2.22	406.08	368.69	335.72	373.71	369.71	440.67	316.33	316.33
New Zealand (14)	77.34	-2.1	70.20	63.97	71.76	70.70	-0.3	4.37	79.00	71.72	65.31	72.70	70.90	96.47	75.37	91.23
Norway (38)	319.23	-1.2	289.74	264.03	296.17	316.74	-0.8	1.92	323.22	293.46	267.22	297.46	319.16	374.64	277.33	280.80
Philippines (22)	74.95	-1.5	68.03	61.99	69.54	150.35	-0.7	1.40	76.08	69.07	62.90	70.01	151.47	214.07	74.65	199.82
Singapore (42)	219.46	-3.1	199.19	181.51	203.61	172.38	-2.0	1.86	226.53	205.68	187.28	208.48	175.96	448.01	215.21	415.53
South Africa (43)	259.73	0.1	235.74	214.82	240.97	277.29	0.0	3.10	259.43	235.55	214.48	238.76	277.29	370.12	251.92	307.23
Spain (33)	274.30	1.1	248.98	226.87	254.49	313.97	1.9	2.16	271.43	246.44	224.40	249.80	308.18	277.33	202.45	202.45
Sweden (49)	475.83	2.0	431.88	393.55	441.47	549.00	2.7	1.89	466.26	423.35	385.49	429.11	534.74	538.94	402.43	407.80
Switzerland (31)	333.93	0.8	303.09	276.19	309.82	298.78	1.8	1.12	331.22	300.73	273.83	304.82	293.56	333.99	231.69	237.24
Thailand (39)	19.77	0.8	17.94	16.35	18.34	38.82	1.2	7.61	19.61	17.81	16.21	18.05	38.38	108.19	19.61	108.19
United Kingdom (214)	332.95	1.5	302.20	275.38	308.91	302.20	1.4	3.26	328.15	297.93	271.29	301.99	297.93	337.99	266.87	266.87
USA (641)	394.35	0.6	357.93	326.16	365.87	394.35	0.6	1.57	392.21	356.10	324.25	360.95	392.21	401.22	293.43	293.43
Americas (820)	357.97	0.5	324.90	296.07	332.12	302.07	0.5	1.58	356.05	323.27	294.36	327.68	300.43	365.75	268.24	268.24
Europe (705)	286.79	1.1	260.30	237.20	266.08	270.95	1.6	2.36	283.68	257.56	234.53	261.07	266.72	298.25	229.05	229.32
Nordic (147)	412.51	1.2	374.41	341.18	382.72	415.85	1.9	1.81	407.41	369.90	336.82	374.94	408.03	464.93	345.30	348.30
Pacific Basin (873)	105.68	0.0	95.92	87.41	98.05	88.41	0.1	1.67	105.68	95.95	87.37	97.26	88.29	158.99	105.68	152.40
Euro-Pacific (1578)	181.22	0.7	164.48	149.89	168.13	157.03	1.1	2.13	179.93	163.36	148.75	165.59	155.34	209.12	173.55	184.35
North America (763)	382.62	0.5	347.28	316.46	354.99	382.38	0.5	1.58	380.69	345.64	314.73	350.35	380.41	389.57	286.81	286.81
Europe Ex. UK (491)	255.89	0.8	232.25	211.64	237.41	247.52	1.7	1.94	253.64	230.29	209.70	233.43	249.45	267.07	203.64	204.37
Pacific Ex. Japan (391)	192.39	-1.1	174.62	159.12	178.50	194.33	-0.6	4.03	194.51	176.60	160.81	179.01	195.56	320.66	192.39	306.63
World Ex. US (1800)	185.00	0.7	167.91	153.01	171.64	163.53	1.0	2.12	183.73	166.81	151.89	169.08	161.88	212.89	176.94	186.08
World Ex. UK (2227)	244.85	0.5	222.23	202.51	227.17	223.03	0.7	1.66	243.60	221.17	201.39	224.18	221.47	262.69	211.16	215.32
World Ex. Japan (1959)	330.45	0.7	299.93	273.31	306.59	324.45	0.8	1.95	328.30	298.07	271.42	302.13	321.75	344.35	284.51	264.51
The World Index (2441)	252.31	0.6	229.01	208.69	234.09	230.17	0.8	1.84	250.77	227.68	207.32	230.78	228.38	269.47	216.61	219.73

 CONSTITUENT CHANGE 17/12/97: Name change. Haw Par Bros. to Haw Par Corporation (Singapore). Latest prices were unavailable for this edition. Market closed 16/12/97: South Africa.

Emerging markets: IFC Investable Indices

Dollar terms

Dec 16

Market

Latest index values were unavailable for this edition.

4 pm close December 17

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
87[illegible]	51½	Xerox x	1.28	1.8	18	17229	72¼	70[illegible]	71[illegible]	+
59[illegible]	40½	Xtra Corp	0.80	1.5	18	223	52[illegible]	51[illegible]	52[illegible]	+
25	20[illegible]	Yankee Egy x	1.34	5.4	15	118	24[illegible]	24[illegible]	24[illegible]	+
56	37[illegible]	York Int	0.48	1.1	15	1155	42[illegible]	42	42[illegible]	-
8[illegible]	4	Zapata	0.28	4.1	57	432	7	6[illegible]	6[illegible]	-
13[illegible]	6[illegible]	ZenithEl				1685	7[illegible]	6[illegible]	6[illegible]	-
28[illegible]	24[illegible]	Zenith Nat	1.00	3.9	15	217	26[illegible]	25½	25[illegible]	-
8[illegible]	7[illegible]	Zeneca Inc	0.76	9.3		13	8[illegible]	8[illegible]	8[illegible]	-
30[illegible]	17[illegible]	Zero	0.12	0.4	20	30	29[illegible]	28[illegible]	29[illegible]	+
14	10½	ZweigFdA	1.32	9.6		179	13½	13[illegible]	13[illegible]	-
9½	8	Zweig Tot x	0.84	8.8		587	9½	9[illegible]	9½	+

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. # Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring (International Access) 1-804-320-8087 or give the names of the companies whose reports you want and fax your request to (International Access) 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbinc.com/cgi-bin/ft1

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7976.31	7922.59	7838.30	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	105.12	105.11	104.86	105.12 (16/12)	101.09 (14/4)	105.12 (16/12/97)	54.99 (1/10/81)
Transport	3255.42	3272.40	3236.61	3369.27 (15/10)	2222.07 (2/1)	3369.27 (15/10/97)	13.23 (8/7/32)
Utilities	264.04	263.85	261.49	264.04 (16/12)	208.47 (25/4)	264.04 (16/12/97)	16.53 (8/7/32)

DJ Ind. Day's high 8068.06 (7992.72) Low 7880.52 (7807.98) (Theoretical¶)
Day's high 8019.82 (7947.71) Low 7924.33 (7838.30) (Actual¶)

Standard and Poors	Dec 16	Dec 15	Dec 12	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	968.04	963.39	953.39	983.79 (5/12)	737.01 (2/1)	983.79 (5/12/97)	4.40 (1/6/32)
Industrials¥	1119.85	1112.23	1102.24	1146.82 (7/10)	855.42 (11/4)	1146.82 (12/12/97)	3.52 (30/6/32)
Financial¥	118.86	119.25	117.37	120.83 (8/12)	80.75 (2/1)	120.83 (8/12/97)	7.13 (4/8/74)
Others							
NYSE Comp.	506.75	504.12	500.00	514.31 (5/12)	389.47 (11/4)	514.31 (5/12/97)	4.64 (25/4/42)
Amex Comp	686.86	685.27	686.90	721.98 (7/10)	541.20 (28/4)	721.98 (7/10/97)	524.20 (18/7/96)
NASDAQ Cmp	1555.00	1536.56	1536.58	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	425.34	420.76	422.83	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/83)

■ RATIOS

	Dec 12	Dec 5	Nov 28	Year ago
Dow Jones Ind. Div. Yield	1.74	1.68	1.74	2.09
	Dec 10	Dec 3	Nov 26	Year ago
S & P Ind. Div. yield	1.48	1.46	1.50	1.85
S & P Ind. P/E ratio	26.09	26.33	25.78	23.04

US DATA

■ MARKET ACTIVITY

● Volume (million)	Dec 16	Dec 15	Dec 12
NYSE	638.300	602.132	579.290
Amex	29.681	32.585	28.002
NASDAQ	794.821	801.296	669.272

NYSE	Dec 16	Dec 15	Dec 12
Issues Traded	3,453	3,433	3,426
Rises	1,734	1,592	1,473
Falls	1,220	1,371	1,430
Unchanged	499	470	523
New Highs	214	170	112
New Lows	95	113	112

■ NYSE TRADING ACTIVITY — Volume : 638,300,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Compaq	7,984,200	57⅝	+2⅞
Pepsico	6,019,500	35⅝	-⅛
Micron Tch	5,551,800	23⅝	+1⅛
Texas Inst	4,730,100	44	+1½
EMC	4,721,800	27⅞	+1¼
Gen Elec	4,070,200	75⅜	+⅞
Philip Mrrs	4,021,400	45⅛	+⅛
IBM	3,948,500	103⅜	+2¼
Motorola	3,412,700	58⅛	+⅛
Green Tree	3,399,800	22¼	+1⅛

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Selectron	35⅜	+5⅜	+18.2
Vishay Int	22⅝	+3⅜	+17.6
Nycomed B	36⅝	+3⅞	+12
Primark	41⅞	+4⅛	+11.1
Downs			
Liz Claiborne	44	-5¼	-10.7
Georgia-Pac	24⅝	-2¾	-10.1
Coral Stores	42⅝	-4⅛	-9.6
Christiana	37⅝	-3¾	-9.1

■ NASDAQ TRADING ACTIVITY — Volume :794,821,000

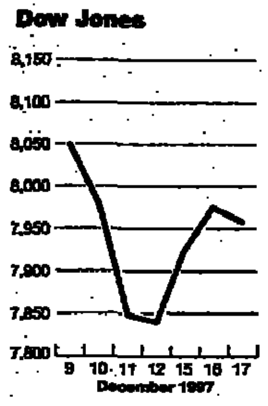
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Danka Bus	33,498,000	13⅛	-17⅞
Intel	15,302,000	71⅛	-⅞
Cisco Sys	14,625,900	80⅝	+2⅝
Oracle	13,939,600	23⅛	+⅝
Applied Mtl	13,141,900	28	+⅞
Sun Microsys	10,332,900	36⅞	+1⅝
Dell Comp	10,190,700	87	+3⅛
US Office	8,294,600	15⅝	-1⅞
Microsoft	8,138,800	139⅛	+2⅞
Suburban Ldg	7,653,100	13	-6⅛

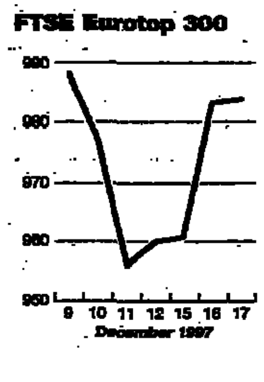
■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Peoples Bnc	31	+6½	+26.5
Carolina Sth	30⅝	+6⅝	+28
Powerwave	21	+4⅛	+24
Cybexoptics	23⅝	+3½	+17.2
Downs			
Herbalife A	23⅝	-43⅝	-65
Danka Bus	13⅛	-17⅞	-57.9
Famous Dve	9⅝	-7⅛	-43.6
Suburban Ldg	13	-6⅛	-32.1

Dow Jones



FTSE Eurotop 300



JAPAN

	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	16541.06	15985.21	15908.39	20681.07	15082.52	38915.9	85.25

■ TOKYO TRADING ACTIVITY — Volume : 615,000,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Yamaichi	22,409,000	1	
Nippon Steel	12,158,000	204	+16
Daiwa Secs	11,784,000	482	+26
Nomura Secs	11,576,000	1750	+60
Sakura Bank	11,520,000	498	+28
Tasuda T&B	9,288,000	165	+2
Fuji Bank	8,539,000	882	+35
Bk Tokyo-Mit	7,147,000	1900	+40
Long Cred Bk	6,883,000	239	-2
Kobe Steel	6,764,000	102	-1

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Shin Nikkai	127	+20	+18.7
Kosei Secs	250	+38	+17.9
Diamond Lse	702	+100	+16.6
Aoki Intl	650	+89	+15.9
Downs			
Toshoku	52	-18	-25.7
L & M Foods	90	-25	-21.7
Fudow	150	-40	-21.1
Tasaki Elec	180	-30	-14.3

FRANCE

	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2853.25	2812.18	2838.27	3094.01	2256.97	3094.01	964.61

■ PARIS TRADING ACTIVITY — Volume : 442,918,910

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
AGF	4,327,828	317.1	-9
Paribas	1,002,250	500	-10
Rho-Pnc A	967,843	259	-6
Usinor	799,851	92.4	-2.6
Elf Aquit	750,875	665	+11
CSF (Thom)	739,081	185	
Cr Comm Fr	738,914	418	-20.5
Fr Telecom	683,849	214	-3.5
Axa-UAP	583,265	466.5	-4
Schneider	549,435	305	-12

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Mod Livres	37.8	+6.6	+21.2
Metal Dplye	340	+30.9	+10
Clayeux	44	+3.95	+9.9
Petit Bateau	29.5	+2.5	+9.3
Downs			
Forinter	627	-371	-37.2
Cycnos	25	-3	-10.7
Marocaine	85	-10	-10.5
TPI	470.2	-54.8	-10.4

GERMANY

	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4158.68	4083.97	4060.04	4438.93	2848.77	4438.93	931.18

■ FRANKFURT TRADING ACTIVITY — Volume : 13,582,975

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Commerzbk	1,251,813	70.1	+0.4
Bayer	752,136	63	+0.85
Siemens	641,283	102.4	+2.1
Dresdner Bk	636,470	84	+1.9
Veba	630,684	117.5	+3
Dt Telekom	585,776	33	-0.6
Deutsche Bk	558,347	124.75	+1
BASF	490,749	62.56	+0.8
Hoechst	347,289	62.1	-0.8
Lufthansa Rg	348,704	34.4	+0.65

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
AMB Aach	190.5	+21.5	+12.7
Vitaforge	810	+88	+12.2
Wella	1235	+85	+7.4
Axa Colonia	166	+11	+7.1
Downs			
Eurobike	30.2	-2.3	-7.1
Deutz	12.85	-0.8	-5.9
Linotype Hl	62	-3.8	-5.8
VBH Hldgs	24	-1.3	-5.1

UK

	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	5190.8	5203.4	5121.8	5330.80	4056.60	5330.8	986.9

■ LONDON TRADING ACTIVITY — Volume : 870,800,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BTR	27,191,700	181	
Langdons Fds	24,000,000	1¼	+¼
Pilkington	20,927,720	122½	
Vodafone	17,982,970	430	-7½
Centrica	14,133,270	89¼	-1¼
Shell	13,133,440	458	-3½
Norwich U	12,645,850	400	+8
BT	11,919,420	483	+2½
NatWest	11,416,050	1060	+15
Safeway	10,988,500	329	-8

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Ionica	74½	+14½	+24.2
Paramount	28½	+5½	+23.9
Rutland Trust	51¼	+6¾	+15.2
Ebief	42	+5½	+15.1
Downs			
Oasis Stores	130	-58	-30.1
Mulberry	53½	-20	-27.2
Lands Imprv	90½	-18	-16.6
Coats Viyella	95	-15½	-14

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	974.00	970.40	+0.90	975.40	969.20	50,381	138,612
Mar	979.80	981.10	+0.70	988.10	977.10	140,478	309,205
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	16090.0	16520.0	+550.0	16860.0	15770.0	31,849	165,338
Jun	16030.0	16530.0	+500.0	16630.0	16030.0	15	30,298

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	2927.0	2901.0	-17.0	2930.0	2896.0	15,729	39,322
Jan	2938.0	2908.0	-17.5	2938.0	2906.5	3,864	10,562
■ DAX							
Dec	4150.0	4158.0	-2.0	4198.0	4133.0	35,037	48,350
Mar	4190.0	4190.5	-2.0	4197.0	4095.0	20,946	25,626

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int
Dec	2417.00	2416.00	+10.75	2439.00	2409.00	9,598	22,748
Jan	2425.25	2424.00	+11.00	2447.00	2417.25	8,204	4,585
■ SOFFEX							
Dec	6125.0	6112.0	+20.0	6158.0	6101.0	6,751	16,636
Jan	6135.0	6120.1	+14.1	6167.0	6110.0	4,550	8,675

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Yield	P/E
Argentina	General	(u) 22303.46	21992.85	25771.70 22/10	19232.37 2/1		3.31	18.7
Australia	All Ordinaries	2562.1	2514.1	2500.9	2779.20 25/9	2299.20 28/10	3.66	18.1
	All Mining	571.9	546.0	548.9	987.30 24/2	541.30 27/11		

All-resources index jumped 4.7 per cent as bargain hunters moved in on BHP, WMC and Normandy.

Country	Index	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Yield	P/E
Hungary	Bux	7616.87	7327.02	7195.41	8493.80 6/8	4291.30 8/1	na	na

Telecoms leader Matav hit a fresh high to lead broad market upwards.

Country	Index	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Yield	P/E
India	BSE Sens.	3487.02	3424.87	3357.56	4548.02 5/8	3226.24 2/1		
	Crisil 500	639.40	628.12	620.73	843.28 5/8	615.29 12/12	na	na

Renewed buying by local and foreign funds sent shares higher.

Country	Index	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Yield	P/E
Poland	WIG	14311.3	14442.2	14203.2	18336.40 18/2	14081.80 12/12	1.75	10.8

Shares backtracked with losers leading gainers by 61 to 41.

Country	Index	Dec 17	Dec 16	Dec 15	1997 High	1997 Low	Yield	P/E
Portugal	BVL 30	3698.37	3693.98	3673.86	3698.37 17/12	2166.87 2/1	1.57	27.1
	PSI 20	8581.63	8569.80	8542.63	8603.52 3/10	5182.34 2/1		

NASDAQ NATIONAL MARKET

4 pm close December 17

NASDAQ NATIONAL MARKET

AMEX PRICES

4 pm close December 17

EASDAQ

Japan gives the world a double surprise

WORLD OVERVIEW

The larger-than-expected tax cut by the Japanese government and the Bank of Japan's intervention to support the yen caused ripple effects in world stock markets yesterday, *writes Philip Coggan.*

The size and nature of the tax cut prompted hopes that the Japanese economy might be nursed back into health via a revival of consumer spending. The Nikkei 225 average duly managed a 3.5 per cent gain.

Meanwhile, the yen support operation – possibly as great a surprise for the markets as the tax cut – temporarily relieved some of the pressure on the other Asian currencies. However, some analysts were rather puzzled by the actions of the Japanese authorities.

"The Japanese government's belated turnaround on fiscal policy is at least a step in the right direction, even if the final economic impact is likely to be very small. Unfortunately, the accompanying foreign exchange intervention seems to represent yet another step back," said Chris Carter, managing director, global equity strategy at UBS.

"With the Japanese consumer lacking not income but confidence, and with financial system stability surely a necessary condition of increased confidence, to effectively look to tighten monetary policy through foreign exchange intervention to support the yen looks a crazy policy to me."

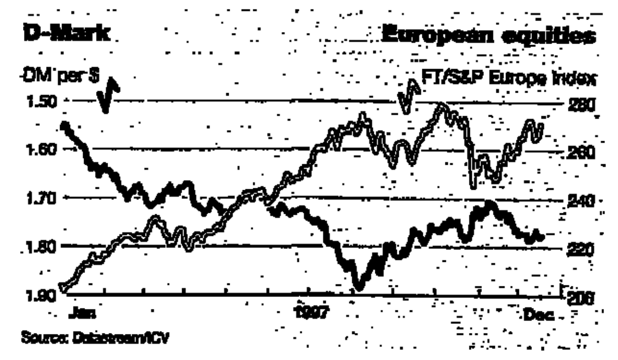
Asia's problems continued to prompt profits warnings in the US, the latest culprit being 3M, which cited the strength of the dollar, along with economic weakness in Japan, Asia and Brazil for a setback to fourth-quarter earnings.

3M followed in the wake of last week's warning from Oracle, which ignited a sell-off in the technology sector. An initial rally on Wall Street petered out in late morning after the 3M news.

The performance of European markets was mixed as the good news from Tokyo's stock market was offset by the effect of a weaker dollar. The Dax index in Frankfurt nudged a little higher, and the Mibtel in Milan recorded an all-time intraday peak, but the CAC 40 in Paris was down on the day.

European bourses have been enjoying a traditional end-of-year rally with the FT S&P Europe (ex UK index) up 3.2 per cent, in local currency terms, over the first two weeks of December.

Edmond Warner of NatWest Markets, who is fairly gloomy about the short-term prospects for global stock markets, says: "European equities are solidly underpinned by the approach to monetary union and the dramatic corporate restructuring that is accompanying it. Portfolio restructuring, as Emu-zone investors adopt new benchmarks, should provide added impetus."



London market, Page 28

EMERGING MARKET FOCUS

Low odds on an Indian summer

Indian stocks – battered by the collapse of the government, a 10 per cent slide for the rupee and a general withdrawal of funds from Asian markets – are staging a modest recovery.

Yesterday, the benchmark BSE 30 index closed at 3,489, up 63 for a rise of 160 points from a recent low of 3,329 on December 11. Analysts said the bad news is now fully discounted in share prices. Some believe that the index has found a new "natural floor" at about 3,300.

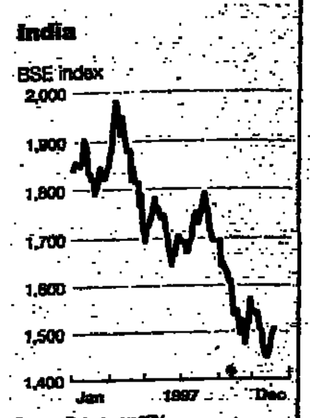
"The levels today are seen by and large to take into account the politics, the rupee and redemption pressures on emerging market funds," said Sankar Dey, chief executive of Peregrine Securities India.

Mr Dey said local speculators – who account for 70 per cent of turnover – had driven down the market after foreign institutions began to sell shares in November, recording the first net outflow of funds since India began its reforms.

The knock-on effects of the Asian crisis were "aggravated" by a falling rupee and the chaotic fall of the government in Delhi. But the last five days have seen an outbreak of bargain hunting concentrated on blue chips. The index was also supported by good news from Indian Tobacco Company, which posted good first-half profits.

The recovery of confidence remains fragile, and is unlikely to push the market strongly higher. It rests on the belief that the rupee has reached a floor just above 40 to the dollar.

On Monday Bimal Jalan, the new governor of the Reserve Bank of India, said this level was "reasonable". The following day the currency fell to an all-time low of 39.93 in intraday trading – but heavy intervention by the RBI pushed it back to 39.39. The rupee closed yesterday at 39.35.



Mr Jalan promised to ensure "a two-way market" with demand for rupees and supply of dollars. This carries weight in a thin market where forward speculation is banned. Most analysts now say downside risk on the rupee is small.

But a minority say the currency could fall by up to a further 10 per cent. "What has changed is the collapse of the Korean won and a weakening Japanese yen," said the head of research at one securities firm. He said the RBI could not ignore the threat of cheap imports from Korea and Japan.

Analysts are now looking ahead to end-of-year asset allocations – with positive signals from Morgan Stanley and Foreign and Colonial, but signs that other investors are overweight.

Meanwhile, attention has shifted from the risk of elections to their likely outcome. Many Bombay stockbrokers favour the right-wing Bharatiya Janata party. But foreign investors are troubled by its outbursts against foreign investment, and apparent reluctance to push for full currency convertibility and an open insurance sector.

As a result, a solid bull run may have to wait until foreign investors digest the new government's budget in April or May.

Krishna Guha

US equities ignore weak Treasuries

AMERICAS

US equities moved cautiously higher during morning trading in spite of a weak opening by bond markets, *writes John Labate in New York.*

By early afternoon the Dow Jones Industrial Average was 25.61 higher at 8,001.92 while the broader S&P 500 index climbed 3.55 at 971.59.

Putting downward pressure on the Dow were shares in 3M, which plunged more than 5 per cent or $5¾ to $88¼. The sell-off was triggered by a warning from the company that fourth-quarter earnings would be similar to those of last year. Selling was sparked as analysts trimmed their estimates.

But other Dow component shares continued higher, including AT&T, which gained $1⅜ to $58½. Investors also bid up the price of cyclical shares, notably Caterpillar, which rose $1⁵⁄₁₆ to $50¼ and International Paper, which added $1⅟₁₆ to $44⅝. IBM also stayed firm, rising $1⅜ to $104¹³⁄₁₆.

Shares in Georgia Pacific rose over 5 per cent to $63¼ as its newly formed stock, Georgia Pacific Timber, began trading yesterday.

The technology sector continued to strengthen and the Nasdaq composite climbed 6.81 to 1,559.81. Smaller company shares also moved higher as the Russell 2000 index rose 1.65 to 426.99.

Semiconductor shares continued to recover. Shares in Altera rose $2⅛ to $37⁷⁄₁₆, a gain of more than 6 per cent. Texas Instruments shares also moved higher, up $⅝ to $44¾. The Philadelphia stock exchange's semiconductor index rose 5.17 at 261.29. Industry leader Intel, however, fell back by $⅟₁₆ to $71¼.

Shares in financial shares were mixed following a dull morning for Treasury bonds. By early afternoon the benchmark long bond was off ⁵⁄₃₂ at 101⅞, sending the yield up to 5.989 per cent.

But Citicorp rose $1⅞ to $131¼ on speculation that the company would buy a credit card business from AT&T. Chase Manhattan was also higher, up $¹³⁄₁₆ to $111¹³⁄₁₆.

TRW shares fell slightly, $⅟₁₆ to $54¹³⁄₁₆, after it announced plans to buy a 7 per cent stake in the UK's ICO Global Communications.

TORONTO opened higher, fuelled by a strong jump in the price of gold, although activity was quiet as dealers started to ease off ahead of the holiday season. The TSE 300 index had risen 43.37 to 6,610.8 by midsession.

Gold stocks advanced by more than 6 per cent in early trading as the bullion price rose by more than $4 on COMEX in New York. Placer Dome was C$1.15 better at C$17.15 while Barrick was C$1.40 better at C$25.80.

Teck Corp, a Vancouver-based mining company, gained C$1 to C$19.25 after taking a 40 per cent stake in an Alaskan gold project owned by Sumitomo of Japan.

Outside the golds sector, there was active trading in Geac Computer, which rose C$3.45 to C$44.70 after the company said second-quarter revenues rose 152 per cent.

Mexico in volatile start

MEXICO CITY had a volatile morning with the market opening higher before briefly dipping into negative territory and then rebounding higher again. By midsession, the IPC index was 22.88 higher at 5,110.19.

Dealers said the market wobble was due to investors taking profits after recent strong gains. "The bourse has gone off the boil a bit and sellers have stepped in," said one.

SAO PAULO edged into negative territory as investors became more cynical about the prospect of early interest rate cuts, one of the factors that has buttressed the market's recent gains. By midsession the Bovespa index was 23 lower at 9,720. Market heavyweight Telebras was up R$1 at R$122.50.

BUENOS AIRES ticked sideways in muted trade, with investors keeping a low profile in spite of better news from Asia. Dealers said buyers were keeping a wary eye on events in New York and Brazil and the Merval index was 2.8 lower at 671.88 by midday.

AMB jumps 13% on bid hopes

EUROPE

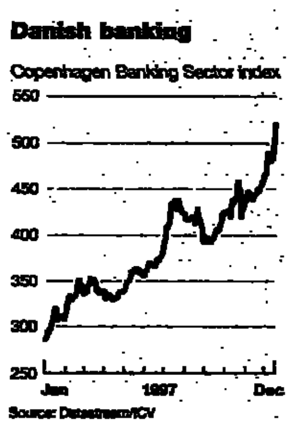
Aachener & Münchener (AMB), the insurance group, rocketed 13 per cent as FRANKFURT moved to centre stage yesterday in the battle over France's AGF.

AMB shares rose DM21.50 to DM190.50 after Allianz and Generali of Italy said they were close to a deal whereby Generali would withdraw its offer for AGF and instead acquire a majority stake in AMB through buying shares from AGF.

Brian Shea, insurance analyst at Salomon Smith Barney called the deal an "elegant solution" to the situation, allowing both sides to escape a costly bidding war.

Allianz rose DM14 to DM452.50 as investors concluded it had achieved a long-standing ambition at an advantageous price.

Elsewhere, the action was also in financials. Vereinsbank rose DM4.40 to DM115.30 after the giant mortgage bank announced an ambitious cross-border move, buying FGH, the Dutch mortgage bank, from Aegon.



Dresdner slipped DM1.90 to DM84 on news that Jürgen Sarrazin, chief executive, is retiring earlier than expected.

The liberalisation of Europe's telecommunications industry, due to come into force next month, weighed on Deutsche Telekom. The shares ended 60pfg lower at DM33 after the group announced price cuts to fend off with anticipated competition. Mannesmann, whose Arcor telecom subsidiary is seen as one of the winners in next year's shakeout, rose DM17.50 to DM875.

Overall, the Xetra Dax index finished 4.26 higher at 4,154.57.

AMSTERDAM topped the performance charts among heavyweight markets, after a number of news-driven features sent the AEX index up 10.03 or 1.1 per cent to 914.76.

Philips announced plans to regroup its high-volume consumer electronics businesses and the shares immediately shook off the gloom induced lately by the shakeout for US high-tech sectors. They jumped Fl 5.50 or 4.8 per cent to Fl 119.50 after touching a session-high of Fl 120.90.

Gist-Brocades was another keenly sought share, climbing Fl 2.10 or 4.3 per cent to Fl 50.90 after a local press report sparked talk of a merger with DSM. The latter added Fl 1.20 to Fl 183.50.

Paper leader KNP BT moved lower at the opening on news of a Fl 300m book loss on the sale of Austrian offshoot KNP Leykam, but quickly recovered to close Fl 2.30 or 5.3 per cent higher at Fl 45.50 on news of management changes.

Among financials, Aegon was improved Fl 2.00 to Fl 178 after announcing the sale of FGH Bank.

PARIS moved lower in reduced volume. CCF was the worst performer in a dull banking sector, while Usinor came off sharply following a negative broker note.

CCF ran into profit-taking after recent merger speculation gains and slipped FFr20.50 or 4.7 per cent to FFr418. Usinor shed FFr2.60 to FFr82.40. The CAC 40 index finished 18.93 lower at 2,893.25.

AGF fell FFr9.00 to FFr317.10 after Generali and Allianz agreed to drop competing bids and share the French insurer.

ZURICH hit an all-time high. Swiss Re fell back SFr39.00 to SFr2,568 after its recent share buy-back led gains, but rival insurers were busy. Zurich Insurance gained SFr37.00 to SFr674 and takeover talk got behind Baloise, which rose SFr30.00 to SFr2,890. The SMI index ended 29.4 higher at 6,122.1.

COPENHAGEN was again dominated by trading in banking stocks, as investors continued buying in the hope of sector consolidation.

"It's just renewed speculation about mergers," said one analyst. "We have seen a lot of that this year but there has been little concrete information to go on."

BG, Denmark's second-biggest bank, linked recently with Unidanmark, the number three, rose over 7 per cent in early trading. The shares finished DKr24.50 better at DKr480. Unidanmark ended DKr10 better at DKr520 while Den Danske Bank closed DKr43 up at DKr930. However, the rest of the market had an uninspiring day and the KFX index slipped 0.37 to 204.01.

STOCKHOLM was boosted by favourable news on telecoms giant Ericsson, which rose SKr11.50 to SKr299.50 after a European standards agency reported that its technology was likely to become the European standard for the next generation of mobile phones. The general index ended 23.47 higher at 2,954.89.

Worries about the German retailing sector, a feature of the Frankfurt market of late, filtered through to Hennes & Mauritz, the clothing retailer.

Goldman Sachs downgraded the stock after two years on its recommended list, citing valuation concerns and doubts about the German market. The shares ended SKr24 down at SKr342.

FTSE Actuaries Share Indices — European series

December 17

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total retn (Ecu)
FTSE Eurotop 300	983.90	+0.07	+0.67	2.28	0.00	991.07
FTSE Eurotop 100	2283.80	+0.45	+10.27	–	–	–
FTSE Eurotop 300 Regions						
300 UK	996.58	–0.17	–1.72	3.14	0.00	1012.25
300 Ex-UK	977.28	+0.21	+2.04	1.79	0.00	979.67
300 Eurobloc	961.25	+0.18	+1.75	2.01	0.00	964.74
300 Ex-Eurobloc	1000.94	–0.01	–0.10	2.47	0.00	1010.81
FTSE Eurotop 300 Economic Groups						
Resources	948.39	+0.47	+4.44	2.89	0.00	958.56
General Industries	903.49	+0.38	+3.44	2.18	0.00	905.65
Consumer Goods	976.46	–0.06	–0.54	1.85	0.00	987.00
Services	968.31	–0.43	–4.19	2.27	0.00	976.86
Utilities	1021.58	–0.17	–1.69	2.94	0.00	1029.89
Financials	1058.24	+0.42	+4.46	2.19	0.00	1064.09

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved. Merger: Grand Metropolitan (UK) & Guinness (UK) to form Diageo (UK); Inserts Merita (Finland)

Written and edited by Jeffrey Brown, Jonathan Ford and Nicholas Miller.

SOUTH AFRICA

Johannesburg shares surged towards the close to finish nearly 2 per cent higher as both the gold price and the rand strengthened. The all-share index finished 111.1 better at 6,170.

Gold stocks leapt almost 7 per cent as the bullion price rallied. Leading gold stock Vaal Reefs was R14.80 better at R172.40. Industrials gained 2 per cent, with Anglo American Industries up R5 at R128.

Tokyo rises 3.5% on tax news

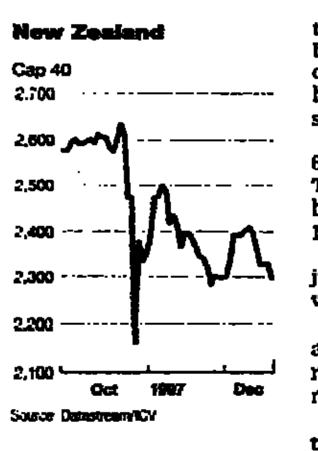
ASIA PACIFIC

Boosted by prime minister Ryutaro Hashimoto's surprise announcement of an income tax cut, TOKYO surged more than 1,000 points at one stage before consolidating in afternoon trading, *writes Bethan Hutton.*

The Nikkei 225 average closed 3.5 per cent higher on the day, ending 555.85 higher at 16,541.06, after slipping to 15,795.20 early in the morning session on disappointment with Tuesday's policy measures. It then rocketed to 16,816.68 as news broke of the tax cut.

The broader-based Topix index gained 28.53 to 1,227.95, while the capital-weighted Nikkei 300 added 6.07 to 246.43.

Retailing strengthened with the tax cuts seen as one of the few pieces of good news for the sector in a long time. Investors hoped that at least part of the tax cut – estimated at about Y70,000 per family – will be spent and not saved. The retail index rose 4 per cent, and department stores in particular did well. Mitsukoshi added Y29 to Y375, Isetan Y64 to Y609, Parco Y33 to Y493, and Takashimaya Y65 to Y910.



The steel, oil, and paper sectors benefited from the sudden surge of the yen – to a peak of Y125.7 to the US dollar at one stage – from a starting point of about Y131. The iron and steel sector rose 6.8 per cent, oil and coal 5 per cent, and paper and pulp 3.5 per cent.

Asahi Breweries was up Y110 at Y2,100, a high for the year, after announcing a joint venture with Tsing Tao Breweries in China.

Nintendo, the electronic game maker, dropped Y200 to Y12,500 after a TV cartoon based on some of its game characters was reported to have induced epileptic fits in several hundred children.

Volume increased to about 600m shares, from 419m on Tuesday. Gainers outnumbered losers 890 to 292, with 120 unchanged.

In Osaka the OSE average jumped 390.57 to 16,108.66, in volume of 23.8m shares.

WELLINGTON fell steeply after a sharp rise for interest rates appeared to pull the rug from under sentiment.

Leading stock NZ Telecom tumbled 3.9 per cent and the NZ 40 capital index closed 34.60 or 1.5 per cent lower at 2,297.76.

The shakeout followed a gloomy economic report from the central bank, which predicted an upsurge in the current account deficit. The NZ dollar fell and money market rates shot higher.

SYDNEY bounced 1.9 per cent, with the All Ordinaries index gaining 48.0 to 2,562.1 on what brokers described as "some fairly determined" foreign buying.

Golds had a good day and BHP gained 72 cents or 6 per cent to A$13.66. News Corp rose 8 cents to A$8.20 and retailer Coles Myer 8 cents to A$7.62. National Australia Bank put on 51 cents at A$21.47.

HONG KONG improved in low volume with the Hang Seng index rising 555.85 or 3.5 per cent to 16,541.06. Wall Street's overnight gains plus the better tone across the Pacific Rim was said to have supplied the momentum.

HSBC rose HK$8.00 to HK$195. The property sector index jumped 4.2 per cent.

Shanghai Industrial and China Telecom, both of which join the lead index next month, rose HK$2.30 to HK$30.00 and 80 cents to HK$13.55 respectively.

SEOUL extended its pre-election rally, with the composite index gaining 14.23 to 418.19.

Banking stocks rose on hopes of merger activity. Korea First Bank ended 170 won higher at 2,340 won and Seoul Bank ended 150 won better at 2,080.

JAKARTA was strongly higher as worries about President Suharto's health ebbed and the rupiah staged a recovery.

The composite index closed 12.3, or 3.5 per cent, higher at 368.685.

LEGAL NOTICES

No. 005404 of 1997
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
MR REGISTRAR BUCKLEY
IN THE MATTER OF
KENNING MOTOR GROUP
PUBLIC LIMITED COMPANY
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice Chancery Division dated 10th December 1997 confirming the reduction of the Share Capital of the above-named Company from £18,700,000 to £17,500,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 12th December 1997.

Dated this 18th day of December 1997
Nicholson Graham & Jones
110 Cannon Street
London EC4N 6AR